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## **Section 1: 10-K (FORM 10-K)**

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**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, 2007**

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.)*

**231 N. Third Avenue, 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 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  
(Do not check if a smaller reporting    Company  
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, 2007, 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 \$113,597,000.

The number of shares outstanding of the registrant's Common Stock, no par value per share, as of March 2, 2008 was 8,273,578.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Specific portions of the registrant's Proxy Statement dated March 24, 2008 are incorporated by reference into Part III hereof.

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*The discussion following below and elsewhere in this Form 10-K contains forward-looking statements, which are subject to safe harbors under the Securities Act of 1933 and the Securities Exchange Act of 1934. When used in this discussion and elsewhere in this Form 10-K, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project” or similar expressions are intended to identify “forward-looking statements.” In addition, statements that refer to projections of the Company’s future financial performance, anticipated growth and trends in the Company’s businesses and in the financial services industry, including statements regarding the Company’s plans to expand, expected growth in “Other income” services, and expectations regarding operating expense levels during 2008, are forward-looking statements. Readers are cautioned to not place undue reliance on any such forward-looking statements, which speak only as of the date made, and readers are advised that various factors, including regional and national economic conditions, unfavorable judicial decisions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors and other factors listed under Risk Factors in Item 1A could affect the Company’s financial performance and could cause actual results for future periods to differ materially from those anticipated or projected. The Company does not undertake and specifically disclaim any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.*

**Item 1. BUSINESS**

Intermountain Community Bancorp (“Intermountain” or the “Company”) is a financial 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 (“Department”), 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. 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 four years, the Bank opened branches in Weiser, Coeur d’Alene, Nampa, Rathdrum, Caldwell and Post Falls, Idaho. In January 2003, the Bank acquired a branch office from Household Bank F.S.B. located in Ontario, Oregon, its first and only out-of-state branch at the time. Also, in 2003, the Company changed the names of the Coeur d’Alene, Post Falls, and Rathdrum branches from Intermountain Community Bank to Panhandle State Bank, because the Panhandle State Bank name had more brand recognition in the northern part of the state. In November 2004, Intermountain acquired Snake River Bancorp, Inc. (“Snake River”) and its subsidiary bank, Magic Valley Bank, which consisted of three branches. The branches are located in south central Idaho in the cities of Twin Falls, Gooding and Jerome. In June 2005, the Company opened a branch in Spokane Valley, Washington. In August 2005, the Company closed its Jerome, Idaho branch and consolidated the branch operations into its Twin Falls branch.

In 2006, the Company opened branches in Kellogg and Fruitland, Idaho and a branch in downtown Spokane, Washington. It also opened a Trust & Wealth division, offering trust & wealth management services to its customers. In September 2006, the Company opened a second branch in Twin Falls, Idaho, and purchased a small investment company, Premier Alliance, which now operates as Intermountain Community Investment Services (“ICI”), providing investment advisory services to its customers. In January 2007, the Company opened a loan

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production and administrative office in Nampa, Idaho, and in August of 2007, it relocated its Spokane Valley branch to a new larger facility.

The Bank has filed an application with its bank regulators to move its main office location. Pending final approval, the Bank will move its main office to a newly built structure in Sandpoint and will retain the current Sandpoint office as a drive-up banking facility.

The Bank's primary service area covers three 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. The north Idaho region is heavily forested and contains 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. Both Kootenai and Bonner County have also experienced additional light industrial, high-tech, commercial, retail and medical development over the past ten years. Shoshone County is experiencing residential development relating to the outdoor recreation industry in the area. The Spokane County economy is the most diverse in eastern Washington. There is an emergence of new high tech industries, as well as an established base of mature businesses in the manufacturing, health care and service industries.

The second region served by the Bank encompasses three counties in southwestern Idaho (Canyon, 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 and pigs, are also raised. Because of its proximity to Boise, Canyon County has expanding residential and retail development, and a more diversified light manufacturing and commercial base.

The third region served by the Bank encompasses two counties in south central Idaho (Twin Falls and Gooding). 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 prevalent. Twin Falls County has experienced significant growth over the past 10 years and as a result, residential and commercial construction is a much larger driver of the local economy. The area is also experiencing growth in light manufacturing and retail development.

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 million in preferred securities, the purchasers of which are entitled to receive cumulative cash distributions from the Trusts. The Company has issued junior subordinated debentures to the Trusts, and payments from these debentures are used to make the cash distributions to the holders of the Trusts' preferred securities.

### **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 and Weiser. One branch is located in Spokane Valley, Washington and one branch is located in 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. On December 31, 2007, the Company had total consolidated assets of \$1.05 billion.

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### **Competition**

Based on total asset size as of December 31, 2007, the Company continues to be the largest independent community bank headquartered in Idaho. 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 decision-making. 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 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 both market share and profitability over the past several years. Based on the June 2007 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 discussed above, the Company's principal market area is divided into three separate regions based upon population and the presence of banking offices. In the northern part of Idaho and eastern Washington, the delineated communities are Boundary, Bonner, Kootenai and Shoshone Counties in Idaho and Spokane County in Washington. Primary competitors in this northern region include US Bank, Wells Fargo, Washington Trust Bank, Sterling Savings Bank and Bank of America, all large international or regional banks, and Idaho Independent Bank and Mountain West Bank, both community banks.

In southwestern and south central Idaho and eastern Oregon, the Bank has delineated Washington, Payette, Canyon, Malheur, Twin Falls and Gooding Counties. Primary competitors in the southern region include international or regional banks, US Bank, Wells Fargo, Key Bank, Bank of America and Zions Bank, and community banks, Bank of the Cascades, Idaho Independent Bank, DL Evans Bank and Farmers National Bank.

### **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, dependent upon the Bank's financial condition and size, legal impediments, local economic conditions and consistency with safe and sound operating practices. 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 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, 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 establishing sound alternative repayment sources. Government guaranty programs are also utilized when appropriate.

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



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lending. 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.

*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 1st mortgage loans are offered with up to 30-year

maturities, while typical maturities for 2nd mortgages (home improvement and home equity loans and lines) are as stated below under "Consumer Loans." Lot acquisition and construction loans are also offered to consumers with typical terms up to 36 months (interest only loans are also available) and up to 12 months (with six months' extension), respectively. Loans for purchase, construction, rehabilitation or repurchase of commercial and industrial properties are also available through the Bank, as are property development loans, with up to two-year terms typical for construction and development loans, and up to 10 years for term loans (generally with re-pricing after three, five or seven years). Risk is mitigated by selling the conventional residential mortgage loans (currently nearly 100% are sold) and underwriting 2nd mortgage products for potential sale. Commercial real estate loans are generally confined to owner-occupied properties unless there is a strong customer relationship or sound business project justifying otherwise. All commercial real estate loans are restricted to borrowers with established track records and financial wherewithal. Project due diligence is conducted by the Bank, to help provide for adequate contingencies, collateral and/or government guaranties.

*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. Loans for the purchase of new autos typically range up to 72 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 generally 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 are available to entities that qualify for the Bank to offer such financing on a tax-exempt basis. Operating loans are generally restricted by law to duration of one fiscal year. Term loans, 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 basis or other revenue to adequately support repayment.

### ***Deposit Services***

The Bank offers the full range of deposit services typically available in most banks and savings and loan associations, 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 non-FDIC insured alternatives on a limited basis to customers, in the form of reverse repurchase agreements and sweep accounts.

### ***Investment Services***

The Bank provides non-FDIC insured investment services through its division, Intermountain Community Investments ("ICI"). Products offered by ICI include annuities, equity and fixed income securities, mutual funds, insurance products and brokerage services to its customers. 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.

### ***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. The Bank offers these services in a manner consistent with the principles of



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prudent and safe banking and in compliance with applicable laws, rules, regulations and regulatory guidelines. The Bank earns fees for managing client's assets and providing trust services.

### *Other Services*

These services include automated teller machines ("ATMs"), debit cards, safe deposit boxes, merchant credit card acceptance services, savings bonds, remote deposit capture, direct deposit, night deposit, cash management services, internet and phone banking services, VISA/Mastercard credit cards and ACH origination services. The Bank is a member of the Star, Plus, Exchange, Interlink and Accell ATM networks. New products and services introduced in 2007 include check collect for businesses, enhanced internet cash management services and portfolio checking for professionals.

### **Loan Portfolio**

The loan portfolio is the largest component of earning assets. In 2007, the Company increased total gross loans by 14% or \$93.2 million. Commercial loans contributed the highest dollar growth in 2007, increasing \$96.1 million or 18% over 2006.

During 2007, with a volatile short-term interest rate environment and a slowdown in lending, loan competition increased, as lenders continued to aggressively pursue new loan originations and refinancings. With market interest rates flattening in early 2007 and then declining in the later months, yields on the loan portfolio increased only slightly over the prior year. The Bank continues to pursue quality loans using conservative underwriting and control practices and to monitor existing loans carefully for increased default risk. The Bank continues to utilize relationship pricing models and techniques to increase customer profitability.

In 2006, the Company increased total gross loans by 20%, or \$111.3 million. Commercial loans contributed the highest percentage growth in 2006, increasing \$102.3 million or 24% over 2005.

In 2005, the total loan portfolio increased 33%, with commercial loans contributing the highest percentage growth, 39% over 2004. In November 2004, the Bank acquired Snake River Bancorp, Inc. and its subsidiary bank, Magic Valley Bank, which contributed \$65.5 million in net loans receivable at the acquisition date.

The following table contains information related to the Company's loan portfolio for the five-year period ended December 31, 2007 (dollars in thousands).

	<b>December 31,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Commercial loans	\$ 623,439	\$ 527,345	\$ 425,005	\$ 304,783	\$ 215,396
Residential loans	114,010	112,569	107,554	94,170	58,728
Consumer loans	26,285	31,800	29,109	24,245	16,552
Municipal loans	5,222	4,082	2,856	2,598	1,751
Total loans	768,956	675,796	564,524	425,796	292,427
Allowance for loan losses	(11,761)	(9,837)	(8,100)	(6,902)	(5,118)
Deferred loan fees, net of direct origination costs	(646)	(1,074)	(971)	(234)	(53)
Loans receivable, net	<u>\$ 756,549</u>	<u>\$ 664,885</u>	<u>\$ 555,453</u>	<u>\$ 418,660</u>	<u>\$ 287,256</u>
Weighted average rate	<u>8.16%</u>	<u>8.65%</u>	<u>7.90%</u>	<u>6.81%</u>	<u>6.60%</u>

### *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

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well-defined weakness and the Bank will probably 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. 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.

During 2007, the Company modified its risk grade allocation factors to better reflect varying loss experiences in different types of loans. As of December 31, 2007, the risk factors range from cash equivalent secured loans (Risk Grade “1”) to “doubtful/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, 2007, the Company had \$4.7 million in the Special Mention, \$18.2 million in the substandard, \$423,000 in the Doubtful and \$0 in the Loss loan categories. The majority of the classified loans were real-estate related, reflecting the slowdown in the real estate sector of the economy, particularly in the land development and residential construction sectors.

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. When a loan is placed on non-accrual status, interest accrued but not received is reversed. The amount of interest income which would have been recorded in fiscal 2007, 2006, 2005, 2004 and 2003 on non-accrual loans was approximately \$161,000, \$21,000, \$95,000, \$55,000 and \$7,000, respectively. A non-accrual loan may be restored to accrual status when principal and interest payments are brought current or when brought to 90 days or less delinquent and continuing payment of principal and interest is expected.

As of December 31, 2007, there were a total of \$6.4 million in identified loans which were not in compliance with the stated terms of the loan or otherwise presented additional credit risk to the Company. Of these loans \$800,000 were loans past due 90 days and still accruing interest and \$5.6 million were non-accrual loans.

Information with respect to non-accrual loans is as follows (dollars in thousands):

	December 31,				
	2007	2006	2005	2004	2003
Non-accrual loans	\$ 5,569	\$ 1,201	\$ 807	\$ 1,218	\$ 174
Non-accrual loans as a percentage of total loans	0.74%	0.18%	0.14%	0.29%	0.06%
Total allowance related to these loans	\$ 585	\$ 531	\$ 341	\$ 413	\$ 47
Interest income recorded on these loans	\$ 270	\$ 230	\$ 8	\$ 10	\$ 3

The \$4.4 million increase in non-accrual loans from December 31, 2006 to December 31, 2007 is primarily comprised of several larger residential construction and land loans where repayment is primarily reliant on selling the asset. The Company has evaluated the borrowers and the collateral underlying these loans and determined that the probability of recovery of the loans’ principal balance is high.

### ***Allowance for Loan Losses***

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, 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 commitments, however this allocation is recorded as a liability, as required by new bank regulatory guidance issued in early 2007.

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**Allocation of the Allowance for Loan Losses  
and Non-Accrual Loans Detail  
(Dollars in thousands)**

	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	<u>100.00%</u>	<u>\$ 768,956</u>	<u>\$ 11,761</u>	<u>\$ 5,569</u>

	December 31, 2006			
	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
Commercial loans	78.03%	\$ 527,345	\$ 7,924	\$ 1,201
Residential loans	16.66	112,569	1,543	—
Consumer loans	4.71	31,800	339	—
Municipal loans	0.60	4,082	31	—
Totals	<u>100.00%</u>	<u>\$ 675,796</u>	<u>\$ 9,837</u>	<u>\$ 1,201</u>

	December 31, 2005			
	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
Commercial loans	75.28%	\$ 425,005	\$ 5,793	\$ 671
Residential loans	19.05	107,554	1,827	10
Consumer loans	5.16	29,109	450	126
Municipal loans	0.51	2,856	30	—
Totals	<u>100.00%</u>	<u>\$ 564,524</u>	<u>\$ 8,100</u>	<u>\$ 807</u>

	December 31, 2004			
	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
Commercial loans	71.58%	\$ 304,783	\$ 4,844	\$ 1,036
Residential loans	22.11	94,170	1,710	175
Consumer loans	5.70	24,245	307	7
Municipal loans	0.61	2,598	41	—
Totals	<u>100.00%</u>	<u>\$ 425,796</u>	<u>\$ 6,902</u>	<u>\$ 1,218</u>

	December 31, 2003			
	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
Commercial loans	73.66%	\$ 215,396	\$ 3,804	\$ 121
Residential loans	20.08	58,728	1,102	37
Consumer loans	5.66	16,552	189	16
Municipal loans	0.60	1,751	23	—
Totals	<u>100.00%</u>	<u>\$ 292,427</u>	<u>\$ 5,118</u>	<u>\$ 174</u>



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During 2007, the company changed its method of calculating its loan loss allowance, in line with new bank regulatory guidance issued in early 2007. Under the new methodology, 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 appropriate 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 and 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 modified by management, then added to the reserve for specifically identified loans to produce the total reserve. Management believes that this methodology provides a more accurate, reliable and verifiable reserve calculation and closely follows recent regulatory guidance. The Bank's total allowance for loan losses was 1.53% of total loans at December 31, 2007 and 1.46% of total loans at December 31, 2006. The following table provides additional detail on the allowance.

#### Analysis of the Allowance for Loan Losses

	December 31,				
	2007(1)	2006(1)	2005(1)	2004	2003
	(Dollars in thousands)				
Balance Beginning December 31	\$ (9,837)	\$ (8,100)	\$ (6,309)	\$ (5,118)	\$ (3,259)
Charge-Offs					
Commercial Loans	1,523	283	307	535	785
Residential Loans	—	9	21	44	195
Consumer Loans	521	501	464	164	137
Municipal Loans	—	—	—	—	—
Total Charge-offs	2,044	793	792	743	1,117
Recoveries					
Commercial Loans	(34)	(8)	(187)	(131)	(357)
Residential Loans	(9)	(4)	(19)	(23)	(35)
Consumer Loans	(32)	(435)	(68)	(40)	(5)
Municipal Loans	—	—	—	—	—
Total Recoveries	(75)	(447)	(274)	(194)	(397)
Net charge-offs	1,969	346	518	549	720
Transfers	3	65	(176)	—	—
Provision for loan loss	(3,896)	(2,148)	(2,229)	(1,438)	(955)
Addition from acquisition	—	—	—	(1,108)	(1,624)
Sale of loans	—	—	96	213	—
Balance at end of period	\$ (11,761)	\$ (9,837)	\$ (8,100)	\$ (6,902)	\$ (5,118)
Ratio of net charge-offs to loans outstanding	0.26%	0.06%	0.09%	0.13%	0.25%
Allowance — Unfunded Commitments					
Balance Beginning December 31	\$ (482)	\$ (417)	\$ (593)	N/A	N/A
Adjustment	467	—	—	N/A	N/A
Transfers	(3)	(65)	176	N/A	N/A
Allowance — Unfunded Commitments at end of period	(18)	(482)	(417)	N/A	N/A

(1) The allowance analysis has been adjusted for the periods 2007, 2006 and 2005 to segregate the allowance for loan losses from an allowance for unfunded commitments, per new bank regulatory guidance issued in 2007. Information to accurately segregate the unfunded commitments was not considered material prior to 2005.

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In November 2004, the Bank acquired Snake River Bancorp, Inc, and its subsidiary bank, Magic Valley Bank. Total loans of approximately \$65.5 million were acquired which was net of a \$1.1 million allowance for loan losses. The loan portfolio acquired from Magic Valley Bank is similar to the Bank's existing loan portfolio. Therefore, the Bank's current process for assessing the allowance for loan loss was applied to the Magic Valley Bank portfolio at December 31, 2007, 2006 and 2005.

In January 2003, the Company acquired the loan portfolio of the Ontario branch of Household FSB ("Ontario Branch Portfolio"). Total loans of approximately \$39.4 million were acquired which was net of a \$1.6 million allowance for loan losses. Of the total \$1.1 million in charge-offs during 2003, \$0.2 million related to the Ontario Branch Portfolio.

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, 2007**

<u>Loan Repricing</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Total Loans</u>
	(Dollars in thousands)		
0-90 days	\$ 55,593	\$ 253,685	\$ 309,278
91-365 days	50,421	126,548	176,969
1 year-5 years	119,440	97,620	217,060
5 years or more	<u>54,910</u>	<u>10,739</u>	<u>65,649</u>
Total	<u>\$ 280,364</u>	<u>\$ 488,592</u>	<u>\$ 768,956</u>

### ***Loan Portfolio Concentrations***

The Bank continuously monitors concentrations of loan categories in regards to industries and loan types. Due to the makeup of the Bank's marketplace, it expects to have significant concentrations in certain industries and with specific loan types. Concentration guidelines are established and then approved by the Board of Directors at least annually, and are reviewed by management and the Board monthly. Detrimental circumstances affecting industries 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.

As of December 31, 2007, the Bank's loan portfolio by loan type was:

Commercial	31.26%
Commercial real estate	49.81%
Residential real estate	14.83%
Consumer	3.42%
Municipal	0.68%

These concentrations are typical for the markets served by the Bank, and management believes that they are comparable with those of the Bank's peer group (banks of similar size and operating in the same geographic areas). At December 31, 2007, approximately 65% of the total loan portfolio was secured by real estate.

Management does not consider the overall commercial portfolio total to present a concentration risk, and feels that there is adequate diversification by type, industry, and geography to further mitigate risk. The agricultural portfolio, which is included in commercial loans, presents a somewhat greater risk, in that it represents a large percentage of the loans in the Bank's southern Idaho region. At December 31, 2007, agricultural loans and agricultural real estate loans represent approximately 11.0% and 3.1% of the total loan portfolio, respectively. The agricultural portfolio consists of loans secured by crops, real estate and livestock. To mitigate credit risk, specific underwriting is applied to retain only borrowers that have proven track records in the agricultural industry. 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.



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The residential land and construction loan portfolio currently appears to pose the greatest overall risk of “loan-type” concentration. However, experienced lenders and consistently applied underwriting standards help to mitigate credit risk. Real estate values tend to fluctuate somewhat with economic conditions. Currently, valuations are static or falling in many of the Bank’s markets, although the rate of decline is smaller than current national average rates of decline. Over longer periods, real estate collateral is generally considered one of the more stable forms of collateral in regards to maintaining value.

The Bank lends to contractors and developers, and is also active in custom construction lending. The Bank has established concentration limits as measured against Tier 1 capital (generally, Tier 1 capital is the Company’s tangible net worth). These concentration limits include residential and commercial construction loans not to exceed 175% and, combined with development loans, not to exceed 325% of Tier 1 capital. The guidelines further specify that total commercial real estate loans are not to exceed 400% and other real estate (agricultural and land) loans are not to exceed 230% of the Bank’s Tier 1 capital. Accordingly, at December 31, 2007, residential and commercial construction loans represented 128.2% and, combined with development loans, represented 295.6% of Tier 1 capital. Total commercial real estate loans represented 380.5%, and other real estate loans represented 147.7% of the Bank’s Tier 1 capital, respectively. In response to the combined banking agencies’ recently adopted Commercial Real Estate Lending Guidelines, the Bank revised measurements and expanded categories for monitoring in 2007.

The methodology of determining the Bank’s overall allowance provides for specific allocation for individual loans or components of the loan portfolio. This could include any segment. However, all components deemed to represent significant concentrations are especially scrutinized for credit quality and appropriate allowance. Allocations are reviewed and determined by senior management monthly and reported to the Board of Directors.

## **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 recorded at market 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 34.0% to \$158.8 million at December 31, 2007 from \$118.5 million at December 31, 2006. The carrying value of the held-to-maturity securities portfolio increased 68.5% to \$11.3 million at December 31, 2007 from \$6.7 million at December 31, 2006. During 2007, the Company utilized funds from repurchase agreements and new deposits to fund the growth in the investment portfolio. In general, the Company sought to increase the yield and use the investment portfolio to limit the Bank’s overall interest rate risk position during the year. In doing so, the Company extended the duration of its portfolio and re-positioned it to perform better in a down-rate environment, to offset the weaker performance expected from the loan portfolio in such an environment. The Company used a combination of U.S. agency debentures, highly rated whole loan collateralized mortgage obligations (CMOs), and municipal bonds to accomplish this re-positioning. The average duration of the available-for-sale and the held-to-maturity portfolios was approximately 4.4 years and 6.4 years, respectively on December 31, 2007, compared to 3.6 years and 5.2 years, respectively on December 31, 2006.

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

<b>Investment Portfolio Detail</b>					
<b>As of December 31,</b>					
<u>Carrying Value as of December 31,</u>	<u>2007</u>	<u>Percent</u>	<u>2006</u>	<u>Percent</u>	<u>2005</u>
	<u>Amount</u>	<u>Change</u>	<u>Amount</u>	<u>Change</u>	<u>Amount</u>
		<u>Prev. Yr.</u>		<u>Prev. Yr.</u>	
	(Dollars in thousands)				
U.S. treasury securities and obligations of government agencies	\$ 62,952	(19.94)%	\$ 78,629	51.81%	\$ 51,796
Mortgage-backed securities	95,739	142.02	39,559	28.53	30,777
Corporate Bonds	—	00.00	—	(100.00)	969
State and municipal bonds	11,424	62.71	7,021	(0.47)	7,054
Total	<u>\$ 170,115</u>	<u>35.87%</u>	<u>\$ 125,209</u>	<u>38.21%</u>	<u>\$ 90,596</u>
Available-for-Sale	158,791	34.01	118,490	41.32	83,847
Held-to-Maturity	11,324	68.54	6,719	(0.45)	6,749
Total	<u>\$ 170,115</u>	<u>35.87%</u>	<u>\$ 125,209</u>	<u>38.21%</u>	<u>\$ 90,596</u>

**Investments held as of December 31, 2007**  
Mature as follows:

	<u>One Year</u>		<u>One to Five Years</u>		<u>Five to Ten Years</u>		<u>Over Ten Years</u>		<u>Total</u>	
	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>
	(Dollars in thousands)									
U.S. treasury securities and obligations of government agencies	\$ 12,691	3.53%	\$ 16,949	3.96%	\$ 33,312	5.87%	\$ —	—%	\$ 62,952	4.88
Mortgage-backed securities	120	4.92	7,103	4.03	15,056	5.28	73,460	5.92	95,739	5.68
State and municipal bonds (tax — equivalent)	1,376	4.83	2,324	4.25	1,910	5.86	5,814	2.82	11,424	3.85
Total	<u>\$ 14,187</u>	<u>3.66%</u>	<u>\$ 26,376</u>	<u>4.00%</u>	<u>\$ 50,278</u>	<u>5.69%</u>	<u>\$ 79,274</u>	<u>5.69%</u>	<u>\$ 170,115</u>	<u>5.26</u>

### Deposits

Deposits represent approximately 79.1% of the Bank's liabilities at December 31, 2007. The Bank gathers its deposit base from a combination of small business and retail sources. The retail and small business base continues to grow with new and improved product offerings. However, management recognizes that customer service, targeted marketing and attractive product offerings, not a vast retail branch network, are going to be the key to the Bank's future customer and deposit growth. In 2007, the Bank experienced strong competition for deposits, but successfully grew lower-cost transaction deposits, including demand, NOW and money market balances, at a relatively strong rate. Total deposits grew 9.3% in 2007 with non-interest bearing deposits growing 12.3% and interest-bearing deposits growing 8.5% over 2006 balances. NOW and money market accounts (personal, business and public) grew 5.99% to \$308.9 million at December 31, 2007 from \$291.4 million at December 31, 2006. Demand accounts grew 12.3% to \$159.1 million at December 31, 2007 from \$141.6 million at December 31, 2006. Certificate of deposit accounts grew \$24.1 million, from \$178.7 million at December 31, 2006 to \$202.8 million at December 31, 2007, an overall increase of 13.5%.

The rise in short-term interest rates during 2006 placed pressure on banks to raise rates paid on deposits during the first nine months of 2007, placing pressure on the Bank's cost of funds and net interest margin. The Bank

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responded by focusing on growing core customer relationships through targeting high deposit balance customers and prospects, providing high-touch personal service to these customers, pursuing referrals from existing customers, competitively pricing its traditional deposit products and enhancing services offered to its business customers. The decrease in short-term interest rates during the latter part of 2007 will likely have the lagged effect of decreasing deposit rates during 2008, but may simultaneously decrease demand for deposits as well. Volatility in the equity markets and other customer investment alternatives may counterbalance this pressure, however.

The following table details repricing information for the Bank's time deposits with minimum balance of \$100,000 at December 31, 2007 (in thousands):

### Maturities

Less than three months	\$ 55,059
Three to six months	25,708
Six to twelve months	7,988
Over twelve months	27,880
	<u>\$ 116,635</u>

### **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, the Bank had overnight unsecured credit lines of \$50.0 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 subject to collateralization requirements and a blanket pledge agreement. At December 31, 2007 the Bank had a \$5.0 million FHLB advance that matures in June 2008, a \$14.0 million FHLB advance that matures in September 2009 and a \$10.0 million FHLB advance that matures in September 2010. These notes totaled \$29.0 million, and the Bank had the ability to borrow an additional \$59.5 million.

In March 2007, the Company entered into an additional borrowing agreement with Pacific Coast Bankers Bank in the amount of \$18.0 million and in December 2007 increased the amount to \$25.0 million. The borrowing agreement is a revolving line of credit with a variable rate of interest tied to LIBOR and is collateralized by Bank stock and the Sandpoint Center. This line is currently being used primarily to fund the construction of the Company's new headquarters building in Sandpoint, with pay down likely in late 2008 from the building's anticipated sale or refinancing into a longer-term instrument. In January 2006, the Company purchased land to build the headquarters building and entered into a Note Payable with the sellers of the property in the amount of \$1,130,000. The note has a fixed rate of 6.65%, matures in February 2026 and had an outstanding balance of \$982,000 at December 31, 2007.

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. These agreements had a weighted average interest rate of 4.69%, 5.03% and 3.60% at December 31, 2007, 2006 and 2005, respectively. The average balances of securities sold subject to repurchase agreements were \$104.2 million, \$59.7 million and \$31.6 million during the years ended December 31, 2007, 2006 and 2005, respectively. The maximum amount outstanding at any month end during these same periods was \$124.1 million, \$106.2 million and \$47.6 million, respectively. The increase in the peak in 2007 reflected the issuance of repurchase agreements primarily to municipal customers during the year. In 2006, the Company entered into an institutional repurchase agreement to reduce interest rate risk in a down-rate environment. The majority of the repurchase agreements mature on a daily basis, with the institutional repurchase agreement in the amount of \$30.0 million maturing in July 2011. At December 31, 2007, 2006 and 2005, the Company pledged as collateral, certain investment securities with aggregate amortized costs of \$122.2 million,

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\$109.0 million and \$37.9 million, respectively. These investment securities had market values of \$123.7 million, \$109.0 million and \$37.1 million at December 31, 2007, 2006 and 2005, 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 at 6.75% with interest payable quarterly. The debt is 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 is callable by the Company in April 2009, bears interest on a variable basis tied to the 90-day LIBOR index plus 2.8%, and matures in April 2034. The rate at December 31, 2007 was 8.04%. Funds received from this borrowing were used to support planned expansion activities during 2004, including the Snake River Bancorp acquisition.

### **Employees**

The Bank employed 450 full-time equivalent employees at December 31, 2007. None of the employees are represented by a collective bargaining unit and the Company believes it has good relations with its employees.

### **Supervision and Regulation**

#### *General*

The following discussion describes elements of the extensive regulatory framework applicable to Intermountain Community Bancorp (the "Company") and Panhandle State (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 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 in its entirety 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 interpretation or implementation thereof, could have a material effect on our business or operations.

#### *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.

*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.

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*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, 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 branch and Washington branch, 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.

*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 covered above and who are not employees; 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, the imposition of a cease and desist order, 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) prohibits management personnel of a bank from serving as a director 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.* Federal law imposes upon banks certain non-capital safety and soundness standards. These standards cover internal controls, information systems and internal audit systems, loan

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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 must develop a plan acceptable to its regulators, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

*Consumer Protection and Disclosure Regulations.* Federal and state law requires banks to adhere to a number of regulations designed to protect consumers and businesses from inadequate disclosure, unfair treatment, excessive fees and other similar abuses. An institution that fails to comply with these regulations must develop a plan acceptable to its regulators, specifying the steps that the institution will take to adhere to the regulations. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. As new regulations have been added in the last few years with more expected in the near future, the costs to the institution of complying with these regulations has increased.

### ***Interstate Banking And Branching***

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (“Interstate Act”) relaxed prior interstate branching restrictions under federal law by permitting nationwide interstate banking and branching under certain circumstances. Generally, bank holding companies may purchase banks in any state, and states may not prohibit these purchases. Additionally, banks are permitted to merge with banks in other states, as long as the home state of neither merging bank has opted out under the legislation. The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area.

Idaho, Oregon and Washington have each enacted “opting in” legislation in accordance with the Interstate Act provisions allowing banks to engage in interstate merger transactions, subject to certain “aging” requirements. Idaho and Oregon also restrict an out-of-state bank from opening de novo branches. However, once an out-of-state bank has acquired a bank within either state, either through merger or acquisition of all or substantially all of the bank’s assets, the out-of-state bank may open additional branches within the state. In contrast, under Washington law, an out-of-state bank may, subject to Department of Financial Institutions’ approval, open de novo branches in Washington or acquire an in-state branch so long as the home state of the out-of-state bank has reciprocal laws with respect to, respectively, de novo branching or branch acquisitions.

### ***Deposit Insurance***

In 2006, federal deposit insurance reform legislation was enacted that (i) required the FDIC to merge the Bank Insurance Fund and the Savings Association Insurance Fund into a newly created Deposit Insurance Fund; (ii) increases the amount of deposit insurance coverage for retirement accounts; (iii) allows for deposit insurance coverage on individual accounts to be indexed for inflation starting in 2010; (iv) provides the FDIC more flexibility in setting and imposing deposit insurance assessments; and (v) provides eligible institutions credits on future assessments.

The Bank’s deposits are currently insured to the maximum allowed per depositor through the Deposit Insurance Fund. The Bank is required to pay deposit insurance premiums, which are assessed and paid regularly. The premium amount is based upon a risk classification system established by the FDIC. Banks with higher levels of capital and a low degree of supervisory concern are assessed lower premiums than banks with lower levels of capital or a higher degree of supervisory concern.

### ***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.

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### ***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, surplus and undivided profits. Tier II capital generally consists of the allowance for loan losses, hybrid capital instruments, and term 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 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.

In 2007, the federal banking agencies, including the FDIC and the Federal Reserve, approved final rules to implement new risk-based capital requirements. Presently, this new advanced capital adequacy framework, called Basel II, is applicable only to large and internationally active banking organizations. Basel II changes the existing risk-based capital framework by enhancing its risk sensitivity. Whether Basel II will be expanded to apply to banking organizations that are the size of the Company or the Bank is unclear at this time, and what effect such regulations would have on us cannot be predicted, but we do not expect our operations would be significantly impacted.

### ***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.





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### ***Corporate Governance and Accounting Legislation***

*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.

To deter wrongdoing, the Act (i) subjects bonuses issued to top executives to disgorgement if a restatement of a company’s financial statements was due to corporate misconduct; (ii) prohibits an officer or director misleading or coercing an auditor; (iii) prohibits insider trades during pension fund “blackout periods”; (iv) imposes new criminal penalties for fraud and other wrongful acts; and (v) extends the period during which certain securities fraud lawsuits can be brought against a company or its officers.

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 significant additional expense for the Company. We anticipate that we will continue to incur such additional expense in our ongoing compliance activities.

### ***Anti-terrorism Legislation***

*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”). Certain provisions of the Patriot Act were made permanent and other sections were made subject to extended “sunset” provisions. 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. While the Patriot Act has had some effect on our record keeping and reporting expenses, we do not believe that the renewal and amendment will have a material adverse effect on our business or operations.

### ***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.

### ***Recent Legislation***

*Financial Services Regulatory Relief Act of 2006.* In 2006, the President signed the *Financial Services Regulatory Relief Act of 2006* into law (the “Relief Act”). The Relief Act amends several existing banking laws and

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regulations, eliminates some unnecessary and overly burdensome regulations of depository institutions and clarifies several existing regulations. The Relief Act, among other things, (i) authorizes the Federal Reserve Board to set reserve ratios; (ii) amends regulations of national banks relating to shareholder voting and granting of dividends; (iii) amends several provisions relating to loans to insiders, regulatory applications, privacy notices, and golden parachute payments; and (iv) expands and clarifies the enforcement authority of federal banking regulators. Our business, expenses, and operations have not been significantly impacted by this legislation.

### ***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, such as the recent lowering of the Federal Reserve's discount and federal funds target rate, and their impact on us cannot be predicted with certainty.

### **Forward-Looking Statements**

From time to time, Intermountain and its senior managers have made and will make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may be contained in this report and in other documents that Intermountain files with the Securities and Exchange Commission. Such statements may also be made by Intermountain and its senior managers in oral or written presentations to analysts, investors, the media and others. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Also, forward-looking statements can generally be identified by words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "seek," "expect," "intend," "plan" and similar expressions.

Forward-looking statements provide management's expectations or predictions of future conditions, events or results. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. These statements speak only as of the date they are made. Intermountain does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made. There are a number of factors, many of which are beyond Intermountain's control that could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements. These factors, some of which are discussed elsewhere in this report, include:

- the inflation and interest rate levels, and market and monetary fluctuations;
- trade, monetary and fiscal policies and laws, including interest rate policies of the federal government;
- applicable laws and regulations and legislative or regulatory changes;
- 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;
- Intermountain's success in gaining regulatory approvals, when required;
- technological and management changes;
- growth and acquisition strategies;
- the Company's critical accounting policies and the implementation of such policies;
- lower-than-expected revenue or cost savings or other issues in connection with mergers and acquisitions;
- changes in consumer spending, saving and borrowing habits;



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- the strength of the United States economy in general and the strength of the local economies in which Intermountain conducts its operations; and
- Intermountain's success at managing the risks involved in the foregoing.

### **Where you can find more information**

The periodic reports Intermountain files with the SEC are available on Intermountain's website at <http://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  
231 N. Third Avenue  
Sandpoint, Idaho 83864  
(208) 263-0505

### **Item 1A. RISK FACTORS**

***As a financial holding company, our earnings are dependent upon the performance of our bank as well as by business, economic and political conditions.***

Intermountain is a legal entity separate and distinct from the Bank. Our right to participate in the assets of the Bank upon the Bank's liquidation, reorganization or otherwise will be subject to the claims of the Bank's creditors, which will take priority except to the extent that we may be a creditor with a recognized claim.

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.

Earnings are impacted by business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the U.S. economy and the local economies in which we operate. Business and economic conditions that negatively impact household or corporate incomes could decrease the demand for our products and increase the number of customers who fail to pay their loans.

***A downturn in the local economies or real estate markets could negatively impact our banking business.***

The Company has a high concentration in the real estate market and a downturn in the local economies or real estate markets could negatively impact our banking business. Because we primarily serve individuals and businesses located in northern, southwestern and southcentral Idaho, eastern Washington and southeastern Oregon, a significant portion of our total loan portfolio is originated in these areas or secured by real estate or other assets located in these areas. As a result of this geographic concentration, the ability of customers to repay their loans, and consequently our results, are impacted by the economic and business conditions in our market areas. Any adverse economic or business developments or natural disasters in these areas could cause uninsured damage and other loss of value to real estate that secures our loans or could negatively affect the ability of borrowers to make payments of principal and interest on the underlying loans. In the event of such adverse development or natural disaster, our results of operations or financial condition could be adversely affected. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would more likely suffer losses on defaulted loans.

Furthermore, current uncertain geopolitical trends and variable economic trends, including uncertainty regarding economic growth, inflation and unemployment, may negatively impact businesses in our markets. While the short-term and long-term effects of these events remain uncertain, they could adversely affect general economic conditions, consumer confidence, market liquidity or result in changes in interest rates, any of which could have a negative impact on the banking business.

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### ***Changes in market interest rates could adversely affect our earnings.***

Our earnings are impacted by changing market interest rates. Changes in market interest rates impact the level of loans, deposits and investments, the credit profile of existing loans and the rates received on loans and investment securities and the rates paid on deposits and borrowings. One of our primary sources of income from operations is net interest income, which is equal to the difference between the interest income received on interest-earning assets (usually, loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually, deposits and borrowings). These rates are highly sensitive to many factors beyond our control, including general economic conditions, both domestic and foreign, and the monetary and fiscal policies of various governmental and regulatory authorities. Net interest income can be affected significantly by changes in market interest rates. Changes in relative interest rates may reduce net interest income as the difference between interest income and interest expense decreases.

Market interest rates have shown considerable volatility over the past several years. After rising through much of 2005 and the first half of 2006, short-term market rates flattened and the yield curve inverted through the latter half of 2006 and the first half of 2007. In this environment, short-term market rates were higher than long-term market rates, and the amount of interest we paid on deposits and borrowings increased more quickly than the amount of interest we received on our loans, mortgage-related securities and investment securities. In the latter half of 2007 and early 2008, short-term market rates declined significantly, causing asset yields to decline. If this trend continues, it could cause our net interest margin to decline and profits to decrease.

Should rates start rising again, interest rates would likely reduce the value of our investment securities and may decrease demand for loans and make it more difficult for borrowers to repay their loans. Increasing market interest rates may also depress property values, which could affect the value of collateral securing our loans.

An increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and write-offs, but also necessitate further increases to the allowances for loan losses.

Should market rates fall further, rates on our assets may fall faster than rates on our liabilities, resulting in decreased income for the bank. Fluctuations in interest rates may also result in disintermediation, which is the flow of funds away from depository institutions into direct investments that pay a higher rate of return and may affect the value of our investment securities and other interest-earning assets.

Our cost of funds may increase because of general economic conditions, unfavorable conditions in the capital markets, interest rates and competitive pressures. We have traditionally obtained funds principally through deposits and borrowings. As a general matter, deposits are a cheaper source of funds than borrowings, because interest rates paid for deposits are typically less than interest rates charged for borrowings. If, as a result of general economic conditions, market interest rates, competitive pressures, or other factors, our level of deposits decreases relative to our overall banking operation, we may have to rely more heavily on borrowings as a source of funds in the future, which may negatively impact net interest margin.

### ***Competition may adversely affect our ability to attract and retain customers at current levels.***

The banking and financial services businesses in our market areas are highly competitive. Competition in the banking, mortgage and finance industries may limit our ability to attract and retain customers. We face competition from other banking institutions, savings banks, credit unions and other financial institutions. We also compete with non-bank financial service companies within the states that we serve and out of state financial intermediaries that have opened loan production offices or that solicit deposits in our market areas. There has also been a general consolidation of financial institutions in recent years, which results in new competitors and larger competitors in our market areas.

In particular, our competitors include major financial companies whose greater resources may provide them a marketplace advantage. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits and the range and quality of services provided. Because we have fewer financial and other resources than larger institutions with which we compete, we may be limited in our ability to attract customers. In addition, some of the current commercial banking customers may seek alternative banking sources as they develop needs for credit



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facilities larger than we can accommodate. If we are unable to attract and retain customers, we may be unable to continue our loan and deposit growth, and our results of operations and financial condition may otherwise be negatively impacted.

### ***Additional market concern over investment securities backed by mortgage loans could create losses in the Company's investment portfolio***

A majority of the Company's investment portfolio is comprised of securities where mortgages are the underlying collateral. These securities include agency-guaranteed mortgage backed securities and collateralized mortgage obligations and triple AAA rated non- agency mortgage-backed securities and collateralized mortgage obligations. With the recent national downturn in real estate markets and the rising mortgage delinquency and foreclosure rates, investors are increasingly concerned about these types of securities. The potential for subsequent discounting, if continuing for a long period of time, could lead to permanent impairment in the value of these investments. This impairment could negatively impact earnings and the Company's capital position.

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

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. There can be no assurance that we will 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 continued favorable economic conditions in our market areas.

### ***There are risks associated with potential acquisitions.***

We may make opportunistic acquisitions of other banks or financial institutions from time to time that further our business strategy. These acquisitions could involve numerous risks including lower than expected performance or higher than expected costs, difficulties in the integration of operations, services, products and personnel, the diversion of management's attention from other business concerns, changes in relationships with customers and the potential loss of key employees. Any acquisitions will be subject to regulatory approval, and there can be no assurance that we will be able to obtain such approvals. We may not be successful in identifying further acquisition candidates, integrating acquired institutions or preventing deposit erosion or loan quality deterioration at acquired institutions. Competition for acquisitions in our market area is highly competitive, and we may not be able to acquire other institutions on attractive terms. There can be no assurance that we will be successful in completing future acquisitions, or if such transactions are completed, that we will be successful in integrating acquired businesses into our operations. Our ability to grow may be limited if we are unable to successfully make future acquisitions.

### ***We may not be able to replace key members of management or attract and retain qualified relationship managers in the future.***

We depend on the services of existing management to carry out our business and investment strategies. As we expand, we will need to continue to attract and retain additional management and other qualified staff. In particular, because we plan to continue to expand our locations, products and services, we will need to continue to attract and retain qualified commercial banking personnel and investment advisors. Competition for such personnel is significant in our geographic market areas. The loss of the services of any management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our results of operations, financial conditions and prospects.

### ***The allowance for loan losses may be inadequate.***

Our loan customers may not repay their loans according to the terms of the loans, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We therefore may experience significant loan losses, which could have a material adverse effect on our operating results.

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We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the amount of the allowance for loan losses. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Increases in this allowance result in an expense for the period. If, as a result of general economic conditions or a decrease in asset quality, management determines that additional increases in the allowance for loan losses are necessary, we may incur additional expenses.

Our loans are primarily secured by real estate, including a concentration of properties located in northern, southwestern and southcentral Idaho, eastern Washington and southeastern Oregon. If an earthquake, volcanic eruption or other natural disaster were to occur in one of our major market areas, loan losses could occur that are not incorporated in the existing allowance for loan losses.

### ***We are expanding our lending activities in riskier areas.***

We have identified commercial real estate and commercial business loans as areas for increased lending emphasis. While increased lending diversification is expected to increase interest income, non-residential loans carry greater historical risk of payment default than residential real estate loans. As the volume of these loans increase, credit risk increases. In the event of substantial borrower defaults, our provision for loan losses would increase and therefore, earnings would be reduced. As the Company lends in diversified areas such as commercial real estate, commercial, agricultural, real estate, commercial construction and residential construction, the Company may be incur additional risk if one lending area experienced difficulties due to economic conditions.

### ***Our stock price can be volatile.***

Our stock price can fluctuate widely in response to a variety of factors, including actual or anticipated variations in quarterly operating results, recommendations by securities analysts and news reports relating to trends, concerns and other issues in the financial services industry. Other factors include new technology used or services offered by our competitors, operating and stock price performance of other companies that investors deem comparable to us, and changes in government regulations.

General market fluctuations, industry factors and general economic and political conditions and events, such as future terrorist attacks and activities, economic slowdowns or recessions, interest rate changes or credit loss trends, also could cause our stock price to decrease regardless of our operating results.

### **Item 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.



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**Item 2. PROPERTIES**

At December 31, 2007, 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)
<i>Panhandle State Bank Branches</i>				
<b>IDAHO</b>				
<b>(Kootenai County)</b>				
<i>Coeur d'Alene(1)</i>	200 W. Neider Avenue Coeur d'Alene, ID 83814	5,500	May 2005	Own building lease land
<i>Rathdrum</i>	6878 Hwy 53 Rathdrum, ID 83858	3,410	March 2001	Own
<i>Post Falls</i>	3235 E. Mullan Avenue Post Falls, ID 83854	3,752	March 2003	Own
<b>(Bonner County)</b>				
<i>Ponderay</i>	300 Kootenai Cut-Off Road Ponderay, ID 83852	3,400	October 1996	Own
<i>Priest River</i>	301 E. Albeni Road Priest River, ID 83856	3,500	December 1996	Own
<i>Sandpoint</i>	231 N. Third Avenue Sandpoint, ID 83864	10,000	May 1981	Own
<b>(Boundary County)</b>				
<i>Bonnars Ferry</i>	6750 Main Street Bonnars Ferry, ID 83805	3,400	September 1993	Own
<b>(Shoshone County)</b>				
<i>Kellogg</i>	302 W. Cameron Avenue Kellogg, ID 83837	672	February 2006	lease land own modular unit
<i>Intermountain Community Bank Branches</i>				
<b>(Canyon County)</b>				
<i>Caldwell</i>	506 South 10 <sup>th</sup> Avenue Caldwell, ID 83605	6,480	March 2002	Own
<i>Nampa</i>	521 12 <sup>th</sup> Avenue S. Nampa, ID 83653	5,000	July 2001	Own
<i>Nampa Loan Production Office</i>	5660 E. Franklin Road, Suite 100. Nampa, ID 83687	2,380	February 2007	Lease
<b>(Payette County)</b>				
<i>Payette</i>	175 North 16 <sup>th</sup> Street Payette, ID 83661	5,000	September 1999	Own
<i>Fruitland</i>	1710 N. Whitley Dr, Ste A Fruitland, ID 83619	1,500	April 2006	Lease
<b>(Washington County)</b>				
<i>Weiser</i>	440 E Main Street Weiser, ID 83672	3,500	June 2000	Own

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<b>City and County</b>	<b>Address</b>	<b>Sq. Feet</b>	<b>Date Opened or Acquired</b>	<b>Occupancy Status (Own/Lease)</b>
<b>Magic Valley Bank Branches (Twin Falls County)</b>				
<i>Twin Falls</i>	113 Main Ave West Twin Falls, ID 83301	10,798	November 2004	Lease
<i>Canyon Rim(2)</i>	1715 Poleline Road East Twin Falls, ID 83301	6,975	September 2006	Lease
<b>(Gooding County)</b>				
<i>Gooding(2)</i>	746 Main Street Gooding, ID 83330	3,200	November 2004	Lease
<b><u>OREGON</u></b>				
<b>(Malheur County)</b>				
<i>Ontario</i>	98 South Oregon St. Ontario, OR 97914	10,272	January 2003	Lease
<i>Intermountain Community Bank Washington Branches</i>				
<b><u>WASHINGTON</u></b>				
<b>(Spokane County)</b>				
<i>Spokane Private Banking</i>	801 W. Riverside, Ste 400 Spokane, WA 99201	4,818	April 2006	Lease
<i>Spokane Valley</i>	5211 E. Sprague Avenue Spokane Valley, WA 99212	16,000	Sept 2006	Own building Lease land
<b><u>ADMINISTRATIVE</u></b>				
<b>(Bonner County)</b>				
Sandpoint Data Center	218 Main Street Sandpoint, ID 83864	1,900	March 1999	Lease
Sandpoint Management Services	110 Main Street Sandpoint, ID 83864	6,669	June 2002	Lease
Sandpoint Administrative	307 N. Second Avenue Sandpoint, ID 83864	4,848	March 2006	Lease
ICI Brokerage Dept	102 10 <sup>th</sup> & Hwy 2, Ste A Priest River, ID 83856	665	September 2006	Lease
Sandpoint Center(3)	414 Church Street Sandpoint, ID 83864		January 2006	Own
<b>(Kootenai County)</b>				
Coeur d'Alene Branch and Administrative Services(1)	200 W. Neider Avenue Coeur d'Alene, ID 83814	17,600	May 2005	land lease own building

- 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 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.
- 3) In January 2006, the Company purchased land on an installment contract and subsequently began building the 94,000 square foot Sandpoint Center, which will house the Sandpoint branch, corporate headquarters and administrative functions. The building will also contain technical and training facilities, an auditorium and community room and space for other professional tenants. Pending receipt of regulatory approval, the Company anticipates relocating the Sandpoint Branch, corporate headquarters and administrative functions during the second quarter of 2008. The Company anticipates selling the building upon or near completion and leasing back approximately 47,000 square feet.

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### Item 3. *LEGAL PROCEEDINGS*

The Company and the Bank are parties to various claims, legal actions and complaints in the ordinary course of their businesses. In the Company'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, cash flows or results of operations of the Company.

### Item 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

There were no matters submitted to security holders for a vote during the fourth quarter of 2007.

## 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 2, 2008, there were 13 Pink Sheet/Bulletin Board Market Makers. The range of high and low closing 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 (1)

Quarter	2007		2006	
	High	Low	High	Low
1st	\$ 22.18	\$ 20.01	\$ 18.18	\$ 14.09
2nd	20.68	17.13	20.50	17.02
3rd	17.90	14.49	21.82	18.73
4th	16.75	13.10	22.73	20.36

(1) This table reflects the range of high and low closing prices for the Company's Common Stock during the indicated periods. Prices have been retroactively adjusted to reflect all stock splits and stock dividends, including a 10% common stock dividend that was effective May 31, 2007. Prices do not include retail markup, markdown or commissions.

The approximate number of record holders of the Company's common stock as of March 2, 2008 was 961, representing 8,273,578 shares outstanding.

The Company historically has not paid cash dividends, nor does it expect to pay cash dividends in the near 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.

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 2007.

#### Equity Compensation Plan Information

The Company currently maintains four compensation plans that provide for the issuance of Intermountain's common stock to officers and other employees, directors and consultants. These consist of the 1988 Employee Stock Option Plan, the 1999 Employee Stock Plan, the 1999 Director Stock Option Plan, and the 2006-2008 Executive Long Term Incentive Plan, each of which have been approved by the Company's shareholders. The

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following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 31, 2007:

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	551,624(1) 90,750(2)	\$ 5.48 —	247,399(1) 90,750(2)
Equity compensation plans not approved by shareholders	31,453(3)	—	31,453(3)
Total	<u>673,827</u>	<u>\$ 5.48</u>	<u>369,602</u>

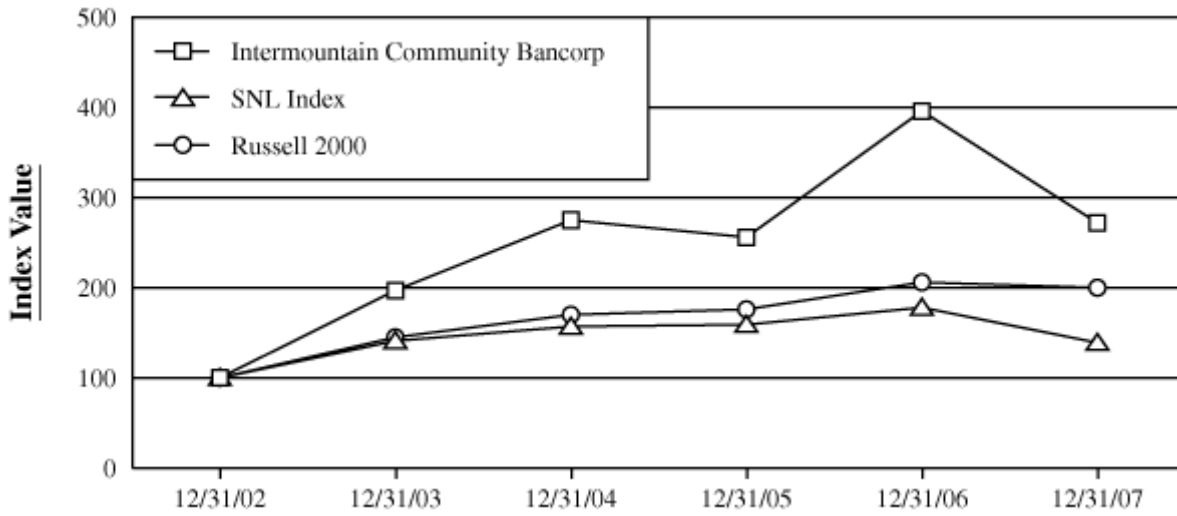
- (1) Under the company's Employee Stock Option and Restricted Stock Plan, as amended (the "Stock Plan"), we may issue Restricted Stock Awards, as that term is defined in the Stock Plan.
- (2) For purposes of this table, we have listed the "target" shares that could be used under the 2006-2008 Long Term Incentive Plan to eligible executive officers, provided the company meets specific performance goals at the end of the three-year period. In the event the company exceeds the performance targets, more shares could be issued.
- (3) We issue securities under the 2003-2005 Long Term Incentive Plan to eligible executive officers, provided the company has met specific performance goals at the end of the three-year period. Under the terms of the plan, the executive must have been continuously employed by the company during the three-year period and to receive the award, must be employed at the time the stock award vests. The award vests equally over a three-period and is payable in restricted stock. The number of shares set forth in the table are the shares that may be issued under the 2003-2005 Long Term Incentive Plan, for which a Registration Statement on Form S-8 has been filed.

### **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.

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**Total Return Performance**



Index	Period Ending					
	December 31, 2002	December 31, 2003	December 31, 2004	December 31, 2005	December 31, 2006	December 31, 2007
Intermountain Community Bancorp	\$ 100	\$ 197	\$ 275	\$ 256	\$ 396	\$ 272
SNL Index	100	141	157	159	178	139
Russell 2000	100	145	170	176	206	200

**Item 6. SELECTED FINANCIAL DATA**

The following selected financial data (in thousands except per share data) of the Company is derived from the Company’s historical audited consolidated financial statements and related footnotes. The information set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and

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Results of Operations” and the consolidated financial statements and related footnotes contained elsewhere in this Form 10-K.

	<b>For the Year Ended December 31, (2)</b>				
	<u>2007(1)(5)</u>	<u>2006(1)(5)</u>	<u>2005(1)</u>	<u>2004(1)</u>	<u>2003</u>
<b>STATEMENTS OF INCOME DATA</b>					
Total interest income	\$ 72,858	\$ 59,580	\$ 41,648	\$ 25,355	\$ 20,983
Total interest expense	(26,337)	(17,533)	(10,717)	(5,712)	(4,970)
Net interest income	46,521	42,047	30,931	19,643	16,013
Provision for loan losses	(3,896)	(2,148)	(2,229)	(1,438)	(955)
Net interest income after provision for losses on loans	42,625	39,899	28,702	18,205	15,058
Total other income	13,199	10,838	9,620	7,197	5,985
Total other expense	(40,926)	(35,960)	(26,532)	(18,884)	(15,476)
Income before income taxes	14,898	14,777	11,790	6,518	5,567
Income taxes	(5,453)	(5,575)	(4,308)	(2,172)	(1,906)
Net income	<u>\$ 9,445</u>	<u>\$ 9,202</u>	<u>\$ 7,482</u>	<u>\$ 4,346</u>	<u>\$ 3,661</u>
Net income per share(3)					
Basic	\$ 1.15	\$ 1.15	\$ 1.06	\$ 0.73	\$ 0.64
Diluted	<u>\$ 1.10</u>	<u>\$ 1.07</u>	<u>\$ 0.97</u>	<u>\$ 0.66</u>	<u>\$ 0.59</u>
Weighted average common shares outstanding(3)					
Basic	8,206	8,035	7,078	5,991	5,730
Diluted	8,605	8,586	7,684	6,604	6,154
Cash dividends per share	—	—	—	—	—

	<b>December 31, (2)</b>				
	<u>2007(1)</u>	<u>2006(1)</u>	<u>2005(1)</u>	<u>2004(1)</u>	<u>2003</u>
<b>BALANCE SHEET DATA</b>					
Total assets	\$ 1,048,659	\$ 920,348	\$ 734,099	\$ 597,680	\$ 409,760
Net loans(4)	756,549	664,885	555,453	418,660	287,256
Deposits	757,838	693,686	597,519	500,923	344,866
Securities sold subject to repurchase agreements	124,127	106,250	37,799	20,901	17,156
Advances from Federal Home Loan Bank	29,000	5,000	5,000	5,000	5,000
Other borrowings	36,998	22,602	16,527	16,527	8,279
Shareholders' equity	90,119	78,080	64,273	44,564	27,078

- (1) Comparability is affected by the acquisition of Snake River Bancorp in November 2004 and a branch in 2003.
- (2) Certain prior period amounts have been reclassified to conform to the current period's presentation.
- (3) 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
- (4) Net loans receivable have been adjusted for 2006 and 2005 to move the allowance for unfunded commitments from the allowance for loan loss, a component of net loans, to other liabilities.
- (5) Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, was adopted as of January 1, 2006. During 2007 and 2006, stock based compensation expense was \$486,000 and \$848,000, respectively.

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Key Financial Ratios	Years Ended December 31,		
	2007	2006	2005
Return on Average Assets	0.96%	1.13%	1.11%
Return on Average Equity	11.30%	12.90%	14.80%
Average Equity to Average Assets	8.50%	8.76%	7.53%

### **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 "Business — Forward-Looking Statements."

#### **Overview**

The Company operates a multi-branch banking system and is executing plans for the formation and acquisition of banks and bank branches that can operate under a decentralized community bank structure. Based on opportunities available in the future, the Company plans expansion in markets generally located within the states where it currently operates or in contiguous states, including Idaho, Oregon, Washington and Montana, or in other areas that may provide significant opportunity for targeted customer growth. The Company is pursuing 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.

The Company continues to make significant investments in human resources and technology to support its growth initiatives. Asset growth is expected to keep pace or exceed earnings growth over the next several years while the Company pursues its expansion and customer acquisition goals. Further, the Company continues to leverage its capital which, in addition to retained earnings, has been supplemented by two trust preferred debentures totaling approximately \$16.5 million, and a \$12.0 million common stock offering in December 2005, both executed in anticipation of expansion into new markets.

Management and the Board of Directors remain committed to building a decentralized community banking organization and further increasing the level of service we provide our targeted customers and our communities. Our strategic plan calls for a balanced yet aggressive set of asset growth and shareholder return goals. We expect to achieve these goals by employing experienced, knowledgeable and dedicated people and supporting them with strong technology and training.

In September 2006, the Company acquired a small investment company with which it had maintained a close relationship for many years, and subsequently renamed the department, Intermountain Community Investment Services ("ICIS"). This acquisition allows the Company to offer non-FDIC insured investment alternatives to its customers, including mutual funds, insurance, brokerage services and annuities.

In June 2005, the Company entered the Washington State market by opening a branch in Spokane Valley, Washington. This branch allowed the Company to enter into the eastern Washington banking market and to also better serve its existing customer base. It added a downtown Spokane location in April 2006 after the Bank was able to attract a seasoned team of commercial and private bankers. The Company now offers full service banking and residential and commercial lending from its Spokane Valley branch and Spokane downtown offices, which it operates under the name of Intermountain Community Bank – Washington. In August 2007, the Spokane Valley branch was moved to a larger facility in a growing small business and retail area. It now also houses a mortgage loan center and some administrative offices.

In March 2006, the Company opened a branch in Kellogg, Idaho under the Panhandle State Bank name. In April 2006, the Company opened a branch in Fruitland, Idaho which operates as Intermountain Community Bank. In April 2006, the Company also opened a Trust & Wealth Management division, and began offering these services to its customers. In September 2006, the Company opened a second branch in Twin Falls, Idaho, which operates as

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Magic Valley Bank. These new branches and divisions allowed the Company to expand geographically and better serve its existing customer base.

In 2005, the Company relocated the Coeur d'Alene branch and administrative office to a combined administrative and branch office building located on Neider Avenue between Highway 95 and Government Way in Coeur d'Alene. This facility serves as our primary Coeur d'Alene office and accommodates the Home Loan Center, our centralized real estate mortgage processing department, various administrative support departments and our SBA Loan Production Center. The SBA center was initiated in 2003 to enhance the service, delivery and efficiency of the Small Business Administration lending process.

In August 2006, the Company began construction of a 94,000 square foot financial and technical center office building in Sandpoint, Idaho. The Company plans to relocate both its Sandpoint main branch and headquarters to this building, with the Company occupying approximately 47,000 square feet. Pending regulatory approval, the Company anticipates moving into the facility during the second quarter of 2008.

The Company will continue its focus on expanding market share of targeted customers in its existing markets, and entering new markets in which it can attract and retain strong employees. It will also look for opportunities to acquire other community banks that believe in the strategy of community banking and desire to build on the Company's culture, employee capital, technology and operational efficiency. Based on the June 2007 FDIC survey of banking institutions, the Company is the market share leader in deposits in five of the eleven counties in which it operates, and has experienced share growth in virtually all of its markets over the past year.

2007 represented a challenging year for the banking industry, as slowing economic growth combined with rising loan defaults, particularly in the real estate sector, to place pressure on bank earnings. Large banking institutions were also hurt by significant investment exposure to sub-prime and similar collateralized debt obligations. As delinquencies in the collateral underlying these investments increased and investors pulled money from the market, many large commercial and investment banks experienced significant write-downs.

While smaller banks did not generally have direct exposure to the subprime market, the effects of the subprime meltdown increased pressure on their local real estate loans, causing rising defaults and chargeoffs. As the Fed sought to control the situation by adding liquidity and lowering interest rates in the latter half of the year, many smaller banks also faced compression in their net interest margin, as they were unable to reprice liabilities as quickly as assets were repricing.

Worsening economic and real estate conditions are likely in 2008, as the US economy continues to struggle with slower growth, a weak dollar, and higher inflation, particularly in gas and food prices. With this backdrop, the Federal Reserve is likely to continue to push short-term market rates down to spur higher economic growth.

The northwest economy in which the Company operates held up better than much of the rest of the nation in 2007, and is likely to do so again in 2008. Relatively strong exports, continued in-migration and lower-cost, business-friendly governments may help bolster these markets against some of the national difficulties. Still, the northwest economy is likely to feel the impacts in terms of slowing growth and rising prices.

In this environment, the most significant perceived risks to the Company are credit quality, interest rate risk, operational/execution risk, and human resources risk. Poor credit quality can create significant earnings, capital and liquidity pressures more quickly than other types of risk faced by the Bank. During 2007, the financial stability of the Company's customers weakened in response to the weakening national economy, although our local markets generally held up better. Total loans receivable in 2007 increased 13.9% while our net loan charge-off rate increased to 0.26% of total loans from 0.06% in 2006. Non-accrual loans increased approximately \$4.4 million in 2007 to 0.74% of total loans. Loan delinquencies over 30-days at fiscal year end 2007 increased to 0.40% at December 31, 2007 from 0.24% at December 31, 2006. The delinquency ratios reflected strong collection efforts by the Company's officers, and trended with the increased non-accrual and loss percentages. Softening credit conditions and particularly a slowdown in the real estate sector of the economy placed additional pressure on the loan portfolio during 2007. The economic environment is expected to deteriorate further in 2008, creating more risk in the loan portfolio. Management is responding by actively managing its underwriting, monitoring and collection efforts.



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Interest rate risk for the Company can create earnings and liquidity pressure as market rate changes may adversely impact net interest income and net earnings. To address this risk, management closely monitors changing market rate conditions and bank portfolios and responds accordingly through both portfolio mix and pricing decisions. In addition, the Company engages in certain hedging activities to protect itself against changes in market rates. Market rates were inverted through much of 2007, meaning that short-term rates were higher than longer-term rates. In this environment, it became more difficult to maintain the Company's net interest margin, because deposits continued to reprice upward as loan rates remained static. In the latter half of 2007 and early 2008, the Federal Reserve aggressively cut short-term target rates, leading to a significant decline in overall short-term market rates, including the Bank's prime lending rate. These movements are anticipated to create additional pressure on the Company's net interest margin, as loans reprice down more quickly than its deposit portfolio. Management anticipated these movements, and responded by repricing its deposit portfolio down, aggressively seeking lower-cost funding sources, including non-interest and low-interest bearing deposits, and engaging in additional hedging transactions to offset declining asset yields. The Company also actively employs a customer profitability system and pricing model to ensure that loans and deposits are priced appropriately.

The growth in the Bank has increased the risk of operational problems. These are being addressed through the recruitment and hiring of additional experienced staff in key administrative support positions, significant increases in our training budget and programs, implementation of new monitoring and control technology and the expansion of our internal compliance and audit staff.

In addressing human resources risk, management focuses a great deal of its efforts on developing a culture that promotes, retains and attracts high quality individuals. Our compensation and reward systems contribute directly to maintaining and enhancing this culture, and we encourage strong participation among all employees in establishing and implementing the bank's business plans.

Management believes that its efforts in managing these and other risks have been successful, but that continued diligence is required.

To summarize the Company's financial performance in 2007, net income increased 2.6% over 2006 while assets increased 14.0% over the same time period. The Company realized record net income of \$9.4 million or \$1.10 per share (diluted). This is a 2.8% increase in diluted earnings per share over the 2006 figure of \$1.07 per share (diluted). Return on average equity (ROAE) and return on average assets (ROAA), common measures of bank performance, totaled 11.3% and 0.96%, respectively, compared to 12.9% and 1.13% in 2006. Assets increased at a stronger pace than net income in 2007, which resulted in the decrease in ROAA for the year ended December 31, 2006. Net income increased only slightly in 2007, while equity increased due to the retention of net income and the reversal of an unrealized loss to an unrealized gain position on the investment portfolio.

In 2005 the Company successfully raised \$12 million in equity capital through a common stock offering. In this common stock offering, the Company issued 705,882 common shares and added \$11.9 million to stockholders equity. Other equity events over the past few years include 10% common stock dividends effective May 31, 2007, and May 31, 2006, and a 3-for-2 stock split effective March 10, 2005. All per-share data computations are calculated after giving retroactive effect to stock dividends and stock splits.

Total assets reached \$1.05 billion, a 14.0% increase from \$920.3 million at December 31, 2006. Net loans experienced 13.8% growth to \$756.5 million at December 31, 2007 from \$664.9 million at the end of 2006. Total deposits grew from \$693.7 million to \$757.8 million during 2007, representing a 9.3% increase. Both loans receivable and deposit growth reflect strong organic growth in the Bank's existing markets, as well as increasing contributions from the newer markets. Growth over the past four years has been largely driven by the Company's continued commitment to attracting, motivating and retaining high quality employees, maintaining high levels of customer service and community involvement, pursuing an aggressive branch expansion and acquisition plan and successful face-to-face business development efforts.

The Company's net interest margin for the year ended December 31, 2007 was 5.21%, as compared to 5.66% for 2006 and 5.01% for 2005. A volatile interest rate environment, in which interest rates on interest-costing liabilities generally rose more than on interest earning assets during 2007 created the decrease in the Company's margin in 2007.

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**Results of Operations**
*Net Interest Income*

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**

	<b>For the Year Ended December 31, 2007</b>		
	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Average Yield</b>
	(Dollars in thousands)		
Loans receivable, net(1)	\$ 742,310	\$ 65,362	8.81%
Securities(2)	133,275	6,585	4.93
Federal funds sold	17,631	911	5.17
Total earning assets	893,216	72,858	8.16
Cash and cash equivalents	21,690		
Office properties and equipment, net	32,734		
Other assets	19,181		
Total assets	<u>\$ 966,821</u>		
Time deposits of \$100,000 or more	\$ 91,960	\$ 4,467	4.86%
Other interest-bearing deposits	488,075	14,302	2.93
Short-term borrowings	96,563	3,498	3.62
Other borrowed funds	50,961	4,070	7.99
Total interest-bearing liabilities	727,559	26,337	3.62%
Noninterest-bearing deposits	148,586		
Other liabilities	7,066		
Shareholders' equity	83,610		
Total liabilities and shareholders' equity	<u>\$ 966,821</u>		
Net interest income		<u>\$ 46,521</u>	
Net interest margin			<u>5.21%</u>

[Table of Contents](#)**Average Balance Sheets and Analysis of Net Interest Income**

	<b>For the Year Ended December 31, 2006</b>		
	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Average Yield</b>
	<b>(Dollars in thousands)</b>		
Loans receivable, net(1)	\$ 623,861	\$ 54,393	8.72%
Securities(2)	101,896	4,378	4.30
Federal funds sold	16,880	809	4.79
Total earning assets	742,637	59,580	8.02%
Cash and cash equivalents	21,729		
Office properties and equipment, net	19,523		
Other assets	21,643		
Total assets	<u>\$ 805,532</u>		
Time deposits of \$100,000 or more	\$ 92,933	\$ 3,997	4.30%
Other interest-bearing deposits	412,009	9,195	2.23
Short-term borrowings	48,086	2,109	4.39
Other borrowed funds	36,718	2,232	6.08
Total interest-bearing liabilities	589,746	17,533	2.97%
Noninterest-bearing deposits	133,052		
Other liabilities	11,478		
Shareholders' equity	71,256		
Total liabilities and shareholders' equity	<u>\$ 805,532</u>		
Net interest income		<u>\$ 42,047</u>	
Net interest margin			<u>5.66%</u>

[Table of Contents](#)**Average Balance Sheets and Analysis of Net Interest Income**

	<b>For the Year Ended December 31, 2005</b>		
	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Average Yield</b>
	<b>(Dollars in thousands)</b>		
Loans receivable, net(1)	\$ 505,701	\$ 37,897	7.49%
Securities(2)	108,620	3,672	3.38
Federal funds sold	2,790	79	2.83
Total earning assets	\$ 617,111	\$ 41,648	6.75%
Cash and cash equivalents	21,730		
Office property and equipment, net	14,869		
Other assets	18,344		
Total assets	<u>\$ 672,054</u>		
Time deposits of \$100,000 or more	\$ 83,175	\$ 2,842	3.42%
Other interest-bearing deposits	345,309	5,408	1.57
Short term borrowings	42,407	1,290	3.04
Other borrowed funds	21,527	1,177	5.47
Total interest-bearing liabilities	492,418	10,717	2.18%
Noninterest-bearing deposits	119,831		
Other liabilities	9,747		
Shareholders' equity	50,058		
Total liabilities and shareholders' equity	<u>\$ 672,054</u>		
Net interest income		<u>\$ 30,931</u>	
Net interest margin			<u>5.01%</u>

(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 tax equalized, 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) interest rate fluctuations (change in rate multiplied by prior period average balance), (2) volume fluctuations (change in average balance multiplied by prior period rate) and (3) volume/rate (changes in rate multiplied by changes in volume) when compared to the preceding year.

**Changes Due to Volume and Rate 2007 versus 2006**

	<b>Volume</b>	<b>Rate</b>	<b>Volume/Rate</b>	<b>Total</b>
	<b>(Dollars in thousands)</b>			
Loans receivable, net	\$ 10,327	\$ 539	\$ 103	\$ 10,969
Securities	1,357	648	202	2,207
Federal funds sold	26	74	2	102
Total interest income	11,710	1,261	307	13,278
Time deposits of \$100,000 or more	(42)	517	(5)	470
Other interest-earning deposits	1,698	2,878	531	5,107
Borrowings	3,068	334	(175)	3,227
Total interest expense	4,724	3,729	351	8,804
Net interest income	<u>\$ 6,986</u>	<u>\$ (2,468)</u>	<u>\$ (44)</u>	<u>\$ 4,474</u>

[Table of Contents](#)**Changes Due to Volume and Rate 2006 versus 2005**

	<u>Volume</u>	<u>Rate</u>	<u>Volume/Rate</u>	<u>Total</u>
	(Dollars in thousands)			
Loans receivable, net	\$ 8,855	\$ 6,194	\$ 1,447	\$ 16,496
Securities	(227)	995	(62)	706
Federal funds sold	399	55	276	730
Total interest income	9,027	7,244	1,661	17,932
Time deposits of \$100,000 or more	333	735	87	1,155
Other interest-bearing deposits	1,045	2,298	444	3,787
Borrowings	1,004	737	133	1,874
Total interest expense	2,382	3,770	664	6,816
Net interest income	<u>\$ 6,645</u>	<u>\$ 3,474</u>	<u>\$ 997</u>	<u>\$ 11,116</u>

***Net Interest Income — 2007 Compared to 2006***

The Company's net interest income increased to \$46.5 million in 2007 from \$42.0 million in 2006. The net interest income increase attributable to volume increases was a favorable \$7.0 million over 2006 as average interest earning assets increased by \$150.6 million and average interest costing liabilities increased by \$137.8 million. During 2007, interest rates increased both on the interest earning assets and interest costing liabilities; however, rates increased more significantly on the liability side than the assets. This created a \$2.5 million decrease attributable to rate variances. The separate volume and rate changes along with a \$44,000 decrease due to the interplay between rate and volume factors created a \$4.5 million overall increase in net interest income for 2007.

The yield on interest-earning assets increased 0.14% in 2007 from 2006, while the cost of interest-bearing liabilities increased 0.65% during the same period. At 0.09%, the loan yield increase was relatively modest over the prior year. The prime lending rate was stable during the first half of 2007, but was generally higher than during 2006. However, it dropped by 1.00% during the final four months of the year, resulting in a relatively small annual increase in the overall average loan yield. Approximately 64% of the Bank's loan portfolio is variable rate, so it responds relatively quickly to both rising and falling market rates. The Bank sought to moderate this impact by increasing the higher yielding commercial loan component of its loan portfolio and emphasizing more fixed rate loans in 2007.

The investment securities portfolio experienced an increase in yield of 0.63% as the Company extended the duration of its investment portfolio and bought higher-yielding securities to increase yield and offset some of the volatility in the loan portfolio yield.

The volatile interest rate environment also impacted the Company's interest-bearing liability costs. During the first eight months of 2007, market rates stabilized and deposit costs generally rose in response to market rate increases in 2006. Over the final four months, market rates dropped significantly and liability costs began to decline, but at a slower rate than market rate and asset yield declines. As a result, the overall cost of interest-bearing liabilities increased by 0.65% during the year.

***Net Interest Income — 2006 Compared to 2005***

The Company's net interest income increased to \$42.0 million in 2006 from \$30.9 million in 2005. The net interest income increase attributable to volume increases was a favorable \$6.6 million over 2005 as interest earning assets increased by \$125.5 million and interest costing liabilities increased by \$110.4 million. During 2006, interest rates increased both on the interest earning assets and interest costing liabilities; however, rates increased more significantly on the asset side than the liabilities. This created a \$3.5 million increase attributable to rate variances. The separate volume and rate increases along with a \$957,000 increase due to the interplay between rate and volume factors created an \$11.1 million overall increase in net interest income for 2006.

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The yield on interest-earning assets increased 1.27% in 2006 versus 2005. The cost of interest-bearing liabilities increased 0.79%. The loan yield increase of 1.23% represented the largest combined impact to net yield. The increase by 1.00% in the prime lending rate during 2006 directly affected the Bank's variable rate loan portfolio, which comprised approximately 63% of the total loan portfolio at December 31, 2006. The Bank has increased the higher yielding commercial loan component of the loan portfolio, which contributed to the increase in loan yield. The investment securities portfolio experienced an increase in yield of 0.92% as the Company swapped a number of lower yielding investment securities for higher yielding ones during the year. The yield on federal funds sold rose during 2006 by 1.96%, which is in line with the short-term investment market. The increases in earning asset yields were partially offset by increases in the cost of interest-bearing sources of funding. The cost of other borrowings increased by 1.32% as the Bank partially funded loan and other asset growth with borrowings. This represented the most drastic rate change from 2005. The cost of interest bearing deposits increased 0.66% as the Bank raised interest rates on small certificate of deposits and money market accounts in a rising interest rate environment. The Company was generally asset-sensitive in 2006, resulting in improved net interest income during the year, as its earning assets repriced more quickly and to a higher degree than its interest costing liabilities.

### *Provision for Loan Losses*

Management continually evaluates allowances for estimated loan losses and based on this evaluation, charges a corresponding provision against income. While the Bank generally maintained its sound credit quality position in 2007, the softening economy and real estate downturn impacted its results. The allowance for loan losses as a percentage of total loans receivable was 1.53% at December 31, 2007 and 1.46% at December 31, 2006. The provision for loan losses increased from \$2.1 million in 2006 to \$3.9 million in 2007. Net chargeoffs in 2007 totaled \$2.0 million versus only \$347 thousand in 2006. Much of the additional net chargeoff volume consisted of write-downs on non-performing construction and land loans to lowered collateral values, as the Company reevaluated its collateral positions on its real estate portfolio. At December 31, 2007, the total allowance for loan losses was \$11.8 million compared to \$9.8 million at the end of the prior year.

With the strong growth in the loan portfolio and its concentration in real estate loans, management continues to focus on enhancing its credit quality efforts by recruiting individuals with strong credit experience, providing additional training for our lending officers, and refining its credit approval, management and review process. During the year, the company also credit-shocked its real estate portfolio and revised its method of calculating its loan loss allowance, in line with new bank regulatory guidance issued in early 2007. The credit shock testing provided management with better information about the potential impact of different economic scenarios on the Company's real estate loan portfolio. The ALLL methodology change provides more detailed and granular information to management in its consideration of appropriate allowance levels. While both national and local credit markets experienced a downturn, the local economy remains relatively stable. Given local credit conditions and the stability of the bank's loan portfolio, management believes that the loan loss allowance is adequate at December 31, 2007.

### *Other Income*

The following table details dollar amount and percentage changes of certain categories of other income for the three years ended December 31, 2007.

Other Income	2007	% of	Percent	2006	% of	Percent	2005	% of
	Amount	Total	Change Prev. Yr	Amount	Total	Change Prev. Yr.	Amount	Total
	(Dollars in thousands)							
Fees and service charges	\$ 8,646	65%	29%	\$ 6,726	62%	17%	\$ 5,754	60%
Mortgage Banking								
Operations	2,749	21	(17)	3,300	30	37	2,411	25
BOLI income	314	2	3	305	3	2	300	3
Net gain (loss) on sale of securities	(38)	0	(96)	(987)	(9)	2,195	(43)	0
Other income	1,528	12	2	1,494	14	25	1,198	12
Total	<u>\$ 13,199</u>	<u>100%</u>	<u>22%</u>	<u>\$ 10,838</u>	<u>100%</u>	<u>13%</u>	<u>\$ 9,620</u>	<u>100%</u>



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Fees earned from loans sold and a variety of fees and service charges earned on deposit accounts continue to be the Bank's primary sources of other income. Fees and service charges increased significantly during 2007 as a result of increasing investment, trust, debit card and business services income during the year. The Trust division, established in 2006, picked up customer volume and grew to approximately \$48.5 million in assets under management at the end of 2007. Intermountain Community Investments, purchased in September 2006, had a strong year in 2007, contributing over \$700,000 in fee income, and debit card activity expanded rapidly as customers continued to migrate to electronic banking. Increasing customer accounts, pricing changes on some services and stronger cross-selling activity also contributed to the improvement. The Company expects further growth in income from all of these sources in 2008 and future years.

Mortgage banking income, which had been expanding rapidly in prior years, slowed in 2007 as a result of the downturn in the real estate economy. 2008 is likely to remain a slow year, as residential real estate activity continues to soften. BOLI income reflected slightly higher yields in the BOLI portfolio, while the net loss on securities decreased significantly. In 2006, the Company swapped some very low-yielding securities resulting in a significant loss, which was not repeated in 2007. The yield pickup from this investment swap offset the loss taken within nine months of the swap date. The other income subcategory largely consists of fees earned on the Company's contract to provide deposit accounts used to secure credit card portfolios. This program continued to expand volumes during the year, but at a slower pace than prior years, as national credit card activity slowed in 2007. The Company forecasts continued growth in this contract income, but at slower rates as the slower economy begins to weigh on credit card borrowing.

Overall, the Bank continues to rank near the top of its peer group in terms of other income as a percentage of average assets. To maintain this position and expand the percentage of revenue contributed by non-interest income, the Company will continue to aggressively seek account growth in its local markets, adjust pricing, cross-sell its investment, trust and business solutions, and seek further opportunities to diversify its non-interest income sources.

### *Operating Expenses*

The following table details dollar amount and percentage changes of certain categories of other expense for the three years ended December 31, 2007.

Other Expense	2007	% of	Percent	2006	% of	Percent	2005	% of
	Amount	Total	Change Prev. Yr.	Amount	Total	Change Prev. Yr.	Amount	Total
(Dollars in thousands)								
Salaries and employee benefits	\$ 25,394	62%	16%	\$ 21,859	61%	42%	\$ 15,356	58%
Occupancy expense	6,089	15	27	4,789	13	22	3,927	15
Advertising	1,330	3	13	1,172	3	53	767	3
Fees and service charges	1,404	4	18	1,193	4	22	974	3
Printing, postage and supplies	1,466	4	3	1,430	4	14	1,257	5
Legal and accounting	1,377	3	(3)	1,418	4	23	1,153	4
Other expense	3,866	9	(6)	4,099	11	32	3,098	12
Total	<u>\$ 40,926</u>	<u>100%</u>	<u>14%</u>	<u>\$ 35,960</u>	<u>100%</u>	<u>36%</u>	<u>\$ 26,532</u>	<u>100%</u>

Similar to 2006 and 2005, salaries and employee benefits continued to be the majority of non-interest expense in 2007. The pace of growth in salaries and employee benefits expense slowed significantly in 2007, as compared to 2006 and 2005 as the Company did not expand into new markets or open new branches during the year.

The number of full-time equivalent employees (FTE) at the Bank grew in 2007, but at a slower pace than prior years. The Company added 35 net FTE in 2007, an 8% increase, versus 83, a 25% increase in 2006. The 2007 FTE growth resulted from expanding existing branches and increasing administrative staff to support growth and comply with increasing regulatory requirements. This increase in FTE, along with normal cost-of-living and promotional increases added approximately \$3.5 million to salary and benefits expense during the year. The bank's incentive plans, driven by a combination of asset growth, net income and return on equity, paid at a lower rate as the





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Company's asset and income growth slowed and the return on equity worsened. Recruitment costs totaled \$219 thousand in 2007, down from \$604,000 the year before. Stock based compensation expense decreased to \$486,000 in 2007 from \$848,000 in 2006. Prior to the adoption of FAS123 (R) stock based compensation expense in 2005 totaled \$79,000. Benefits costs continued to rise, however as health insurance premiums increased.

As the economy shifts, the Company expects to further stabilize its staffing levels in 2008 and pursue its short-term objectives through the retention and motivation of its existing high-quality staff. The rate of personnel expense growth is expected to decline further as the company implements cost saving strategies, including revising business processes to more effectively utilize existing bank staff. However, benefits expenses are expected to increase at a rate higher than salary expenses as health insurance premiums continue to rise.

The 2006 personnel expense and FTE growth resulted from expanding existing branches and opening new branches in Fruitland, Kellogg, Twin Falls and downtown Spokane during the year. In addition, the Company established the Trust and Wealth Management division, purchased Intermountain Community Investments, and added administrative staff to support the company growth and comply with increased regulatory requirements related to lending compliance, the US Patriot Act and the Sarbanes Oxley Act. The 2006 increase also reflects introduction of new incentive compensation plans and changes in accounting for stock option expense resulting from the introduction of FAS123 (R), which required the expensing of stock options for the first time in 2006.

Consistent with the Company's growth strategy, occupancy and equipment expense grew significantly in 2007 and 2006. The expense increase was primarily caused by the full-year effect of operational costs of the branches and divisions opened in 2006. It also reflects increasing technology expense, as the Bank continues to improve its infrastructure to support growth, security and product development initiatives. This expense is anticipated to increase again in 2008 as the Company completes and moves into the Sandpoint Center, but it will mitigate some of this impact by reducing its lease expense and implementing cost saving measures in other areas.

Public relations and advertising expense totaled \$1.3 million for 2007, a 13% increase over the \$1.2 million expense in 2006. Continued market development, the need to market in more geographic areas and new target marketing initiatives caused the increases over 2006 and 2005. Management expects costs to remain stable in this category in 2008 as the Bank anticipates improving the efficiency of its marketing efforts during the year.

The increase in fees and service charges during 2007 was caused primarily by increasing volumes of business and the entry into new product lines where third party vendors were required. In addition, the Bank chose to pay service fees to its correspondent banks and sweep balances into interest-bearing accounts, rather than maintaining sufficient balances in non-interest bearing accounts to offset correspondent banking fees. We expect moderation in this area, as efficiencies allow us to spread our vendor costs, and new technology initiatives reduce some of our volume-related expenses. Printing, postage and supplies remained stable from 2006 to 2007 as the Company controlled costs in this area. It is expected that this expense will remain stable in 2008.

Legal and accounting expense decreased in 2007 as the Company reduced expenditures on Sarbanes Oxley compliance and legal fees on the collection of problem loans. In 2006, the Company incurred substantial additional accounting expense to comply with the requirements of Section 404 of Sarbanes Oxley for the first time, as well as other new accounting regulations. The Company also incurred significant legal expense to collect a large loan in southern Idaho, some of which is anticipated to be recovered in 2008. It is anticipated that legal and accounting expense will moderate in 2008, but at a slower pace as the Company continues its compliance with Sarbanes Oxley and other legal, regulatory and accounting pronouncements.

Other expenses decreased in 2007, as the Company trimmed expenses in training, travel, professional consulting, telecommunications and other operational expenses during the year. It also experienced lower operational losses than in the prior year. This category is expected to be stable for 2008, as the Company continues to focus on cost-saving initiatives.

Cost management is a more critical priority for management in 2008, as the economy slows and credit losses potentially increase. While 2006 presented unique growth opportunities and challenges, management began actively targeting higher efficiency as a significant goal in 2007 and expects to continue this focus in 2008. It will seek to leverage the investments made over the past couple years in personnel, compensation systems, fixed assets, training and marketing expenses to generate additional growth without corresponding increases in these expenses.

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In 2008, it will also engage in significant business process revisions to improve workflows, efficiency and the quality of the customer experience. As a result, it will be centralizing certain processes and employing additional technology to slow the growth in salary and other expenses.

### **Financial Position**

Assets increased by \$128.3 million or 14% during 2007. This increase was driven largely by organic growth in the loans receivable portfolio, particularly commercial loans. Loans receivable increased by \$91.7 million or 14% compared to 2006. Continued strong loan demand in both new and existing markets and continued progress on relationship banking initiatives within the Bank created the significant increase in 2007.

Assets increased in 2006 by \$186.2 million, or 25%. This increase primarily resulted from organic loan growth of \$109.4 million, or 20% over 2005, as well as expansion in the investment portfolio. Loan and asset growth is expected to moderate in 2008, as local economies respond to the slowdown in the national economy, and particularly in the real estate sector. Growth rates in the Company's market areas, however, are anticipated to exceed national growth rates.

Investments in available for sale securities increased by 34% from 2006, totaling \$158.8 million at December 31, 2007, compared to \$118.5 million at December 31, 2006. Available for sale investments increased to 15% of total assets compared to 13% for the previous year. Held-to-maturity investments also increased, from \$6.7 million in 2006 to \$11.3 million in 2007. Management expanded the investment portfolio again in 2007 to improve its interest rate risk position, particularly in a down-rate environment. Management continues to manage the investment portfolio to achieve reasonable yield and manage interest rate risk exposure, while maintaining the liquidity necessary to support the rapidly growing loan portfolio. Changes in the investment portfolio along with changes in market rates converted an unrealized loss of \$111,000 in the investment portfolio at the end of 2006 into an unrealized gain of \$1.3 million at the end of 2007. The Company also drew its Fed Funds Sold position down by \$28.8 million during 2007 and reinvested the funds in the higher-yielding loan portfolio.

Office properties and equipment increased \$16.6 million or 65% at December 31, 2007 compared to December 31, 2006. Continued construction on the new Sandpoint headquarters building and the new Spokane Valley office produced much of the increase. Investment in additional technology also added to the change. It is anticipated that the total construction and land cost of the Sandpoint building will be approximately \$24.4 million. The Company currently plans to sell the building upon completion and full occupancy in late 2008. It will then lease back the branch and headquarters space. After 2008, occupancy expense is expected to moderate, as the Company's future growth initiatives will likely involve fewer fixed asset expenditures.

Goodwill and other intangible assets decreased to \$12.4 million at December 31, 2007, from \$12.5 million at December 31, 2006. The Company had goodwill and core deposit intangible assets of approximately \$10.9 million related to the November 2004 Snake River acquisition, and goodwill and other intangible assets of approximately \$1.9 million as a result of the January 2003 purchase of the Ontario branch of Household FSB. The September 2006 purchase of a small investment company, Premier Alliance, added \$263,000 in goodwill to this total in 2006. No new acquisitions occurred in 2007. Goodwill and other intangible assets equaled 1.2% of total assets at December 31, 2007. The decrease in the balance of goodwill and other intangible assets in 2007 relates to the amortization of the core deposit intangibles related to the Snake River acquisition and the Household FSB purchase.

To fund the asset growth, liabilities increased by \$116.3 million, or 14% over 2006. Most of the increase was in traditional customer deposits, which grew \$64.2 million or 9% from 2006 balances. The increase in deposits was split between non-interest bearing deposit accounts (\$17.5 million growth), NOW and money market accounts (\$17.5 million growth), and certificates of deposit (\$24.1 million growth) from the previous year. Over the last several years, strong penetration in our existing markets and rapid growth in new branches have combined with market forces, including volatile equity markets, to produce the increases. Declining interest rates and increasing competition from other banks who are facing significant funding pressures will create additional challenges in growing deposits in 2008. To combat this, the Bank is specifically targeting customers and expanding in areas with high deposit concentrations, changing compensation structures to encourage branch staff to seek deposit growth, and providing additional training, target marketing and technology support for our staff. Management will also emphasize new product development and the use of other funding alternatives.

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Deposits as of December 31, 2006 increased by \$96.2 million over December 31, 2005, or 16%. NOW and money market accounts grew \$75.4 million, or 35% from December 31, 2005. Demand deposit accounts increased \$9.2 million over December 31, 2005, or 7%. Savings and IRA accounts increased by \$8.2 million from December 31, 2005, or 11%.

Repurchase agreements increased \$17.9 million, or 17% as the Bank utilized repurchase agreements to partially fund the strong loan and investment growth that occurred during 2007. Much of the growth in 2007 was used to fund the Company's purchase of certain investment securities to protect against lower market rates. The Bank continues to rely on repurchase agreements as an alternate source of funding to support its asset growth. The \$24 million increase in Federal Home Loan Bank advances was also used to fund the Company's investment transactions. The 64% increase over 2006 in other borrowings to \$37.0 million reflects the use of a credit line to fund construction of the Sandpoint Center. The outstanding balance of this credit line at December 31, 2007 was \$19.5 million.

Total shareholders' 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 the Company's earnings and the after-tax increase in the market value of the available-for-sale investment portfolio. Total shares outstanding increased to 8.2 million shares. Total shareholders' equity grew by \$13.8 million from \$64.3 million at December 31, 2005 to \$78.1 million at December 31, 2006. This increase was due primarily to the retention of the Company's earnings. Both the Bank's and the Company's regulatory capital ratios remain well above the percentages required by the FDIC to qualify as a "well capitalized" institution. Management is closely monitoring current capital levels in line with its long-term capital plan to maintain sufficient protection against risk and provide flexibility to capitalize on future opportunities.

### *Capital*

Capital is the shareholders' investment in the Company. Capital grows through the retention of earnings, the issuance of new stock, and through the exercise of stock options. Capital formation allows the Company to grow assets and provides flexibility and protection in times of adversity. Total equity on December 31, 2007 was 8.6% of total assets. The largest component of equity is common stock representing 85% of total equity. Retained earnings amount to 13% and the remaining 2% is accumulated other comprehensive income.

Banking regulations require the Company to maintain minimum levels of capital. The Company manages its capital to maintain a "well capitalized" designation (the FDIC's highest rating). Regulatory capital calculations include some of the trust preferred securities as a component of capital. At December 31, 2007, the Company's Total capital to risk weighted assets was 11.61%, compared to 11.62% at December 31, 2006. At December 31, 2007, the Company's Tier I capital to risk weighted assets was 10.36%, compared to 10.37% at December 31, 2006. At December 31, 2007, the Company's Tier I capital to average assets was 8.90%, compared to 9.13% at December 31, 2006. The decrease in these capital ratios at December 31, 2007 compared to December 31, 2006 is primarily a result of asset growth outpacing the growth of equity during 2007. It is anticipated that in the future, the Company will build capital through the retention of earnings and other sources. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios of 10%, 6%, and 5%, respectively. Based on the established regulatory ratios, the Company continues to maintain a "well-capitalized" designation.

In February 2005, the Company approved a 3-for-2 stock split, payable on March 15, 2005 to shareholders of record on March 10, 2005. In December 2005, the Company successfully completed a \$12.0 million common stock offering to its existing shareholders and customers. This resulted in the issuance of an additional 705,882 shares of common stock. In April 2006, the Company approved a 10% stock dividend to all shareholders of record as of May 15, 2006. In April 2007, the Company approved an additional 10% stock dividend to all shareholders of record as of May 15, 2007.

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The following table sets forth the Company's actual regulatory capital ratios for 2007 and 2006 as well as the quantitative measures established by regulatory authorities.

	<u>Actual</u>		<u>Capital Requirements</u>		<u>Well-Capitalized Requirements</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2007</b>						
Total capital (to risk-weighted assets):						
The Company	\$ 102,927	11.61%	\$ 70,900	8%	\$ 88,626	10%
Panhandle State Bank	102,898	11.61%	70,902	8%	88,627	10%
Tier I capital (to risk-weighted assets):						
The Company	91,840	10.36%	35,450	4%	53,175	6%
Panhandle State Bank	91,811	10.36%	35,451	4%	53,176	6%
Tier I capital (to average assets):						
The Company	91,840	8.90%	41,297	4%	51,621	5%
Panhandle State Bank	91,811	9.13%	40,225	4%	50,281	5%
<b>As of December 31, 2006</b>						
Total capital (to risk-weighted assets):						
The Company	\$ 90,937	11.62%	\$ 62,611	8%	\$ 78,264	10%
Panhandle State Bank	89,898	11.49%	62,611	8%	78,264	10%
Tier I capital (to risk-weighted assets):						
The Company	81,147	10.37%	31,306	4%	46,958	6%
Panhandle State Bank	80,108	10.24%	31,306	4%	46,958	6%
Tier I capital (to average assets):						
The Company	81,147	9.13%	35,540	4%	44,425	5%
Panhandle State Bank	80,108	9.18%	34,915	4%	43,643	5%

### *Liquidity*

Liquidity is the term used to define the Company's ability to meet its financial commitments. The Company maintains sufficient liquidity to ensure funds are available for both lending needs and the withdrawal of deposit funds. The Company derives liquidity primarily through core deposit growth, repurchase agreements and other borrowing arrangements, loan payments and the maturity of investment securities.

At December 31, 2007, the available-for-sale investment portfolio had gross unrealized gains in the amount of \$2.2 million, compared to \$183,000 at December 31, 2006. Management believes that all unrealized losses as of December 31, 2007 and 2006 are market driven, with no permanent sector or issuer credit concerns or impairments.

Core deposits include demand, interest checking, money market, savings, and local time deposits. Additional liquidity and funding sources are provided through the sale of loans, sales of securities, access to national certificate of deposit (CD) markets, and both secured and unsecured borrowings.

Core deposits, (total deposits less public deposits and brokered certificates of deposit), at December 31, 2007 were 95.7% of total deposits, compared to 97.1% at December 31, 2006. During 2007, the Company experienced a \$45.3 million or 6.7% increase in its core deposit base. Deposit growth of \$64 million lagged loan growth of \$87 million in 2007, but was offset by strong increases in repurchase agreements and the use of a large Federal Funds Sold position at the beginning of 2007. As a result, the Company did not significantly utilize other higher-cost funding sources, such as wholesale certificates of deposit and other borrowings. In the future, management anticipates continued competition for deposits which will require stronger core deposit-gathering efforts and the use of other funding alternatives. The company utilized other repurchase agreements, wholesale certificates of deposit and Federal Home Loan Bank advances during the year to purchase additional investment securities that would provide interest rate risk protection in a declining rate environment.

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Overnight-unsecured borrowing lines have been established at US Bank, Wells Fargo, Pacific Coast Bankers Bank the Federal Home Loan Bank of Seattle (FHLB) and the Federal Reserve Bank of San Francisco. At December 31, 2007, the Company had approximately \$50.0 million of overnight funding available from its unsecured sources and no overnight fed funds borrowed. In addition, \$2 to \$5 million in funding is available on a semiannual basis from the State of Idaho in the form of negotiated certificates of deposit. In March 2007, the Company entered into an additional borrowing agreement with Pacific Coast Bankers Bank in the amount of \$18.0 million, with the amount being increased to \$25.0 million in December 2007. The borrowing agreement is a revolving line of credit with a variable rate of interest tied to LIBOR and is being used to support construction of the new Sandpoint headquarters facility. Management has also sold whole loans or participated portions of loans with other lenders as an additional source of liquidity.

While asset growth is expected to moderate in 2008, the competitive environment for deposits continues to be difficult in the short-term. As a result, management may utilize these alternative funding sources to a greater extent in 2008. As such, management is improving its access to these sources and upgrading its asset and liability management process, expertise and technology to effectively control potential future risks in this area.

### ***Related Party Transactions***

The Bank has executed certain loans and deposits with its directors, officers and their affiliates. All loans and deposits made are in conformance with regulatory requirements for banks and on substantially the same terms and conditions as other similarly qualified borrowers. The aggregate amount of loans outstanding to such related parties at December 31, 2007 and 2006 was approximately \$1,024,000 and \$638,000, respectively.

Directors' fees of approximately \$296,000, \$314,000, and \$310,000 were paid during the years ended December 31, 2007, 2006, and 2005, respectively.

Two of the Company's Board of Directors are principals in law firms that provide legal services to Intermountain. During the years ended December 31, 2007, 2006 and 2005 the Company incurred legal fees of approximately \$9,000, \$11,000, and \$7,000, respectively, related to services provided by these firms.

Two directors of Intermountain who joined the boards of Intermountain and Panhandle State Bank in connection with the Snake River Bancorp, Inc. acquisition and one former employee of Magic Valley Bank, who is now an employee of the Company, are all members of a partnership which owned the branch office building of Magic Valley Bank in Twin Falls, Idaho. The lease requires monthly rent of \$13,165 and expires on February 28, 2018. The Company has an option to renew the lease for three consecutive five-year terms at current market rates. In connection with the Snake River Bancorp acquisition, the lease was amended to grant the Company a two-year option to acquire the property for \$2.5 million. In December 2006, the Company sold the option to acquire the property to an unrelated party and executed a lease agreement to lease the building. The property was sold in January 2007 and the lease commenced in January 2007.

### ***Off-Balance Sheet Arrangements***

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. See Note 14 of "Notes to Consolidated Financial Statements."

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### ***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, 2007.

	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)	\$ 112,678	\$ 4,300	\$ 31,579	\$ 33,601	\$ 43,198
Short-term debt	120,063	100,513	19,550	—	—
Capital lease obligations	—	—	—	—	—
Operating lease obligations(2)	14,667	991	1,520	1,321	10,835
Purchase obligations(3)	4,042	4,042	—	—	—
Other long-term liabilities reflected on the registrant's balance sheet under GAAP	—	—	—	—	—
<b>Total</b>	<b><u>\$ 251,450</u></b>	<b><u>\$ 109,846</u></b>	<b><u>\$ 52,649</u></b>	<b><u>\$ 34,922</u></b>	<b><u>\$ 54,033</u></b>

- (1) Includes interest payments related to long-term debt agreements.
- (2) Excludes recurring accounts payable, accrued expenses and other liabilities, repurchase agreements and customer deposits, all of which are recorded on the registrant's balance sheet. See Notes 5 and 6 of "Notes to Consolidated Financial Statements". Includes operating lease payments for new leases executed in December 2006 for the sale leaseback transactions for previously owned Canyon Rim and Gooding branches. The sale transaction was completed in January 2007 and the leases commenced in January 2007.
- (3) The Company is constructing a 94,000 square foot Sandpoint Center to relocate its Sandpoint branch and corporate headquarters.

### ***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 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. During the last two years, inflation, as measured by the Consumer Price Index, has not increased significantly, although current inflationary trends are higher. The effects of inflation have not had a material impact on the Company.

### ***Interest Rate Management***

See discussion under Item 7A of this Form 10-K.

### ***Critical Accounting Policies***

The accounting and reporting policies of the Company 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. The Company'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 the Company's Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

***Income Recognition.*** The Company recognizes interest income by methods that conform to general accounting practices within the banking industry. In the event management believes collection of all or a portion of contractual interest on a loan has become doubtful, which generally occurs after the loan is 90 days past due, the

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Company discontinues the accrual of interest and any previously accrued interest recognized in income deemed uncollectible is reversed. Interest received on nonperforming loans is included in income only if recovery of the principal is reasonably assured. A nonperforming loan is restored to accrual status when it is brought current or when brought to 90 days or less delinquent, has performed in accordance with contractual terms for a reasonable period of time, and the collectibility of the total contractual principal and interest is no longer in doubt.

*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 usually is based on the fair value of the collateral for certain collateral dependent loans. This evaluation requires management to make estimates of the value of the collateral and any associated holding and selling costs.

Individual loan reviews are based upon specific quantitative and qualitative criteria, including the size of the loan, loan quality classifications, value of collateral, repayment ability of borrowers, and historical experience factors. The historical experience factors utilized are based upon past loss experience, trends in losses and delinquencies, the growth of loans in particular markets and industries, and known changes in economic conditions in the particular lending markets. Allowances for homogeneous loans (such as residential mortgage loans, personal loans, etc.) are collectively evaluated based upon historical bank and industry loan loss experience, trends in losses and delinquencies, growth of loans in particular markets, and known changes in economic conditions in each particular lending market. The Allowance for Loan Losses is presented to the Audit Committee for review.

Management believes the allowance for loan losses was adequate at December 31, 2007. While management uses available information to provide for loan losses, the ultimate collectibility 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 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.

A reserve for unfunded commitments is maintained at a level that, in the opinion of management, is adequate to absorb probable losses associated with the Bank's commitment to lend funds under existing agreements such as letters or lines of credit. Management determines the adequacy of the reserve for unfunded commitments based upon reviews of individual credit facilities, current economic conditions, the risk characteristics of the various categories of commitments and other relevant factors. The reserve is based on estimates, and ultimate losses may vary from the current estimates. These estimates are evaluated on a regular basis and, as adjustments become necessary, they are recognized in earnings in the periods in which they become known through charges to other non-interest expense. Draws on unfunded commitments that are considered uncollectible at the time funds are advanced are charged to the reserve for unfunded commitments. Provisions for unfunded commitment losses, and recoveries on commitment advances previously charged-off, are added to the reserve for unfunded commitments, which is included in the Other Liabilities section of the Consolidated Statements of Financial Condition.

*Investments.* Assets in the investment portfolios are initially recorded at cost, which includes any premiums and discounts. The Company amortizes premiums and discounts as an adjustment to interest income using the interest yield method over the term 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 the Company has the positive intent and ability to hold to





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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 that are considered to be temporary reported in shareholders' 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 investment securities falls below their amortized cost and the decline is deemed to be other than temporary, the securities will be written down to current market value and the write down will be deducted from earnings. There were no investment securities which management identified to be other-than-temporarily impaired for the year ended December 31, 2007. Charges to income could occur in future periods due to a change in management's intent to hold the investments to maturity, a change in management's assessment of credit risk, or a change in regulatory or accounting requirements.

**Goodwill and Other Intangible Assets.** Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company's goodwill relates to value inherent in the banking business and the value is dependent upon the Company's ability to provide quality, cost-effective services in a competitive market place. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods. Goodwill is not amortized, but is subjected to impairment analysis at least annually. The last impairment analysis was performed in December 2007. No impairment was considered necessary during the year ended December 31, 2007. However, future events could cause management to conclude that the Company's goodwill is impaired, which would result in the Company recording an impairment loss. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations.

Other intangible assets consisting of core-deposit intangibles with definite lives are amortized over the estimated life of the acquired depositor relationships. These intangible assets are also subject to impairment analysis. No impairment was considered necessary during the year ended December 31, 2007.

**Real Estate Owned (REO).** Property acquired through foreclosure of defaulted mortgage loans is carried at the lower of cost or fair value less estimated costs to sell. Development and improvement costs relating to the property are capitalized to the extent they are deemed to be recoverable.

An allowance for losses on REO is designed to include amounts for estimated losses as a result of impairment in value of the real property after repossession. The Company reviews its REO for impairment in value whenever events or circumstances indicate that the carrying value of the property may not be recoverable. In performing the review, if expected future undiscounted cash flows from the use of the property or the fair value, less selling costs, from the disposition of the property are less than its carrying value, an allowance for loss is recognized. As a result of changes in the real estate markets in which these properties are located, it is reasonably possible that the carrying values could be reduced in the near term.

### ***Recent Accounting Pronouncements***

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (R), "Business Combinations" ("SFAS No. 141 (R)"). SFAS No. 141 (R) establishes principles and requirements for how the acquirer: 1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141 (R) applies prospectively to business combinations entered into by the Company after January 1, 2009. The Company intends to continue to pursue a long term growth strategy, which may include acquiring other financial institutions. As such, SFAS No. 141 (R) may have a material effect on the Company, mainly in regards to the valuation of loans, and the treatment for acquisition costs.

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In November 2007, the SEC issued Staff Accounting Bulletin 109 (“SAB 109”) regarding the valuation of loan commitments. SAB 109 supersedes SAB 105, and states that in measuring the fair value of a derivative loan commitment, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 109 will be effective for the Company as of January 1, 2008. The Company is currently evaluating the impact, if any, of SAB 109 on future periods.

In February 2007, FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”). SFAS No. 159 provides a fair value measurement election for many financial instruments, on an instrument by instrument basis. SFAS No. 159 will be effective for the Company as of January 1, 2008. The Company is currently evaluating whether to make the SFAS No. 159 fair value election on any of its financial instruments.

In September 2006, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.” EITF Issue No. 06-4 will be effective for the Company as of January 1, 2008. The Company has evaluated the impact of EITF Issue No. 06-4 on future periods and has determined the amount to be immaterial.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 will be effective for the Company as of January 1, 2008. The Company is currently assessing the impact of this standard and does not expect SFAS No. 157 to have a material effect on its consolidated financial statements.

### **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 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.

At December 31, 2007, the Company’s one-year interest sensitive gap is negative \$299.4 million, or negative 28.55% which falls within the risk tolerance levels established by the Company’s Board. The current gap position indicates that if interest rates were to change and affect assets and liabilities equally, rising rates would decrease the Bank’s net interest income. The reverse is true when rates fall. The primary cause for the negative gap is the large block of deposits with no stated maturity, including NOW, money market and savings accounts that can be repriced at any time. However, changes in rates offered on these types of deposits tend to lag changes in market interest rates, thereby potentially reducing or eliminating the impact of the negative gap position. As such, this measure is only a small part of a larger Interest Rate Risk assessment or analysis.

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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, 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-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 benchmark, 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, 2007 and 2006 compared to the established policy limits:

<u>12 Month Cumulative % effect on NII</u>	<u>Policy Limit %</u>	<u>12-31-07</u>	<u>12-31-06</u>
+100bp	+8.0 to - 8.0	3.81	0.25
+300bp	+15.0 to -15.0	10.06	5.75
-100bp	+8.0 to - 8.0	0.73	-1.81
-300bp	+15.0 to -15.0	-17.8	-6.28

The model results for both years fall within the risk tolerance guidelines established by the committee, with the exception of the minus 300 basis point scenario in 2007. Given that market rates have declined 2.25% over the past six months, management considers an additional 3.0% drop highly unlikely.

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

**Asset/Liability Maturity Repricing Schedule  
December 31, 2007**

	<u>Within Three Months</u>	<u>After Three Months but within One Year</u>	<u>After One Year but within Five Years</u>	<u>After Five Years</u>	<u>Total</u>
(Dollars in thousands)					
Loans receivable and held for sale	\$ 313,479	\$ 176,969	\$ 217,060	\$ 65,649	\$ 773,157
Securities	66,360	8,166	35,753	61,614	171,893
Federal funds sold	6,565	—	—	—	6,565
Time certificates and interest-bearing cash	149	—	—	—	149
Total earning assets	386,553	185,135	252,813	127,263	951,764
Allowance for loan losses	(3,528)	(3,176)	(4,116)	(941)	(11,761)
Total earning assets, net	<u>\$ 383,025</u>	<u>\$ 181,959</u>	<u>\$ 248,697</u>	<u>\$ 126,322</u>	<u>\$ 940,003</u>
Interest-bearing demand deposits(1)	\$ 308,857	\$ —	\$ —	\$ —	\$ 308,857
Savings deposits and IRA(1)	76,112	4,413	6,623	—	87,148
Time certificates of deposit accounts	113,219	52,727	36,747	71	202,764
Total deposits	498,188	57,140	43,370	71	598,769
Repurchase agreements	124,127	—	—	—	124,127
FHLB advances	—	5,000	24,000	—	29,000
Other borrowed funds	36,015	—	—	982	36,997
Total interest-bearing liabilities	<u>\$ 658,330</u>	<u>\$ 62,140</u>	<u>\$ 67,370</u>	<u>\$ 1,053</u>	<u>\$ 788,893</u>
Net interest rate sensitivity gap	<u>\$ (275,305)</u>	<u>\$ 119,819</u>	<u>\$ 181,327</u>	<u>\$ 125,269</u>	<u>\$ 151,110</u>
Cumulative gap	<u>\$ (275,305)</u>	<u>\$ (155,486)</u>	<u>\$ 25,841</u>	<u>\$ 151,110</u>	<u>—</u>

(1) Includes deposits with no stated maturity.

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The following table displays expected maturity information and corresponding interest rates for all interest-sensitive assets and liabilities at December 31, 2007.

**Expected Maturity Date at December 31, 2007**

	<u>2008</u>	<u>2009-10</u>	<u>2011-12</u>	<u>Thereafter</u>	<u>Total</u>
	(Dollars in thousands)				
Interest-sensitive assets:					
Commercial loans	\$ 366,005	\$ 87,167	\$ 58,082	\$ 112,184	\$ 623,438
Average interest rate	8.47%	8.09%	8.36%	8.30%	
Residential loans(1)	48,238	21,406	10,635	33,731	114,010
Average interest rate	8.69%	8.37%	9.00%	8.30%	
Consumer loans	11,101	6,419	6,222	2,544	26,286
Average interest rate	7.83%	9.18%	9.08%	11.06%	
Municipal loans	1,461	337	1,514	1,910	5,222
Average interest rate	6.65%	5.35%	5.62%	5.11%	
Investments	74,527	20,859	14,893	61,615	171,894
Average interest rate	4.29%	5.03%	5.75%	5.53%	
Federal funds sold	6,565	—	—	—	6,565
Average interest rate	3.90%	0.00%	0.00%	0.00%	
Certificates and interest bearing cash	149	—	—	—	149
Average interest rate	3.65%	0.00%	0.00%	0.00%	
<b>Total interest-sensitive assets</b>	<u>\$ 508,046</u>	<u>\$ 136,188</u>	<u>\$ 91,346</u>	<u>\$ 211,984</u>	<u>\$ 947,564</u>
Deposits:					
Savings deposits and IRA	\$ 80,560	\$ 3,981	\$ 2,608	\$ —	\$ 87,149
Average interest rate	0.78%	4.05%	4.72%	0.00%	
NOW and money market	308,857	—	—	—	308,857
Average interest rate	2.59%	0.00%	0.00%	0.00%	
Certificates of deposit accounts	165,945	33,894	2,853	71	202,763
Average interest rate	4.57%	4.71%	4.63%	4.24%	
Repurchase agreements	94,127	—	30,000	—	124,127
Average interest rate	4.44%	0.00%	5.85%	0.00%	
Other borrowed funds	5,000	\$ 43,488	—	17,509	65,998
Average interest rate	2.71%	5.77%	0.00%	7.35%	
<b>Total interest-sensitive liabilities</b>	<u>\$ 654,489</u>	<u>\$ 81,364</u>	<u>\$ 35,461</u>	<u>\$ 17,580</u>	<u>\$ 788,894</u>

(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, the committee will also continue to seek review and advice from independent external consultants.

[Table of Contents](#)**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The required information is contained on pages F-1 through F-37 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.

**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).

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, 2007.

The effectiveness of Intermountain's internal control over financial reporting as of December 31, 2007 has been attested to by BDO Seidman, LLP, the independent registered public accounting firm that audited the financial statements included in Intermountain's annual report on 10-K, as stated in their report which is included herein.

[Table of Contents](#)**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Intermountain Community Bancorp  
Sandpoint, Idaho

We have audited Intermountain Community Bancorp's ("Company") internal control over financial reporting as of December 31, 2007, 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 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, 2007, 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, 2007 and 2006, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 and our report dated March 17, 2008, expressed an unqualified opinion on those consolidated financial statements.

Spokane, Washington  
March 17, 2008



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### **Changes in Internal Control over Financial Reporting**

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

### **Item 9B. OTHER INFORMATION**

None.

## **PART III**

### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

In response to this Item, the information set forth in Intermountain's Proxy Statement dated March 24, 2008 ("2008 Proxy Statement") under the headings "Information with Respect to Nominees and Other Directors," "Meetings and Committees of the Board of Directors," "Executive Compensation," and "Security Ownership of Certain Beneficial Owners and Management" and "Compliance with Section 16(a) filing requirements are incorporated herein by reference.

Information concerning Intermountain's Audit Committee financial expert is set forth under the caption "Meetings and Committees of the Board of Directors" in Intermountain's 2008 Proxy Statement and is incorporated herein by reference.

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>.

### **Item 11. EXECUTIVE COMPENSATION**

In response to this Item, the information set forth in Intermountain's Proxy Statement dated March 24, 2008 under the heading "Directors Compensation" and "Executive Compensation" is incorporated herein.

### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

In response to this Item, the information set forth in Intermountain's 2008 Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein.

### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

In response to this Item, the information set forth in Intermountain's 2008 Proxy Statement under the heading "Certain Relationships and Related Transactions" is incorporated herein.

### **Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

In response to this Item, the information set forth in Intermountain's 2008 Proxy Statement under the headings "Ratification of Appointment of Independent Auditors" and "Independent Registered Public Accounting Firm" is incorporated herein.

[Table of Contents](#)**PART IV****Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

## (a)(1) Audited Consolidated Financial Statements

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets at December 31, 2007 and 2006
- Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005
- Consolidated Statements of Comprehensive Income for the years ended December 31, 2007, 2006 and 2005
- Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2007, 2006 and 2005
- Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005
- Summary of Accounting Policies
- Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules have been omitted as they are not applicable or the information is included in the Consolidated Financial Statements

(b) Exhibits: See "Exhibit Index"

[Table of Contents](#)**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERMOUNTAIN COMMUNITY BANCORP  
(Registrant)

/s/ Curt Hecker

Curt Hecker  
*President and Chief Executive Officer*

March 17, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Curt Hecker</u> Curt Hecker	President and Chief Executive Officer, Principal Executive Officer, Director	March 17, 2008
<u>/s/ John B. Parker</u> John B. Parker	Chairman of the Board, Director	March 17, 2008
<u>/s/ Douglas Wright</u> Douglas Wright	Executive Vice President and Chief Financial Officer, Principal Financial Officer	March 17, 2008
<u>/s/ Charles L. Bauer</u> Charles L. Bauer	Director	March 17, 2008
<u>/s/ James T. Diehl</u> James T. Diehl	Director	March 17, 2008
<u>/s/ Ford Elsaesser</u> Ford Elsaesser	Director	March 17, 2008
<u>/s/ Ronald Jones</u> Ronald Jones	Director	March 17, 2008
<u>/s/ Maggie Y. Lyons</u> Maggie Y. Lyons	Director	March 17, 2008
<u>/s/ Jim Patrick</u> Jim Patrick	Director	March 17, 2008
<u>/s/ Michael J. Romine</u> Michael J. Romine	Director	March 17, 2008

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ <u>Jerrold Smith</u> Jerrold Smith	Executive Vice President and Director	March 17, 2008
/s/ <u>Barbara Strickfaden</u> Barbara Strickfaden	Director	March 17, 2008
/s/ <u>Douglas P. Ward</u> Douglas P. Ward	Director	March 17, 2008

[Table of Contents](#)**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation(1)
3.2	Amended and Restated Bylaws(2)
4.1	Form of Stock Certificate(3)
10.1	Second Amended and Restated 1999 Employee Stock Option and Restricted Stock Plan(3)
10.2	Form of Employee Option Agreement(3)
10.3	Form of Restricted Stock Award Agreement
10.4	Amended and Restated Director Stock Option Plan(4)
10.5	Form of Nonqualified Stock Option Agreement(3)
10.6	Form of Director Restricted Stock Award Agreement
10.7	Form of Stock Purchase Bonus Agreement
10.8	Amended and Restated Employment Agreement with Curt Hecker dated January 1, 2008
10.9	Amended and Restated Salary Continuation and Split Dollar Agreement for Curt Hecker dated January 1, 2008
10.10	Amended and Restated Employment Agreement with Jerry Smith dated January 1, 2008
10.11	Amended and Restated Salary Continuation and Split Dollar Agreement with Jerry Smith dated January 1, 2008
10.12	Amended and Restated Executive Severance Agreement with Douglas Wright dated January 1, 2008
10.13	Amended and Restated Executive Severance Agreement with John Nagel dated December 27, 2007
10.14	Amended and Restated Executive Severance Agreement with Pam Rasmussen dated December 28, 2007
10.15	Amended and Restated 2006-2008 Long Term Incentive Plan(5)
10.16	2003 — 2005 Long-Term Incentive Plan, as amended, and Restricted Stock Award Agreement(6)
10.17	Executive Incentive Plan(7)
14	Code of Ethics(3)
21	Subsidiaries of the Registrant
23	Consent of BDO Seidman, LLP
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

- 
- (1) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007
- (2) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed September 8, 2004
- (3) Incorporated by reference to the Registrant's Form 10, as amended on July 1, 2004
- (4) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005
- (5) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006
- (6) Incorporated by reference to the S-8 Registration Statement filed by the Registrant on March 30, 2006 (File No. 333-132835)
- (7) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006

[Table of Contents](#)**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Intermountain Community Bancorp  
Sandpoint, Idaho

We have audited the accompanying consolidated balance sheets of Intermountain Community Bancorp as of December 31, 2007 and 2006 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Intermountain Community Bancorp at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, as of January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Intermountain Community Bancorp's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 17, 2008, expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Spokane, Washington  
March 17, 2008

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**CONSOLIDATED BALANCE SHEETS**

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	(Dollars in thousands, except per share data)	
<b>ASSETS</b>		
Cash and cash equivalents:		
Interest-bearing	\$ 149	\$ 72
Non-interest bearing and vault	26,851	24,305
Restricted cash	4,527	888
Federal funds sold	6,565	35,385
Available-for-sale securities, at fair value	158,791	118,490
Held-to-maturity securities, at amortized cost	11,324	6,719
Federal Home Loan Bank of Seattle stock, at cost	1,779	1,779
Loans held for sale	4,201	8,945
Loans receivable, net	756,549	664,885
Accrued interest receivable	8,207	7,329
Office properties and equipment, net	42,090	25,444
Bank-owned life insurance	7,713	7,400
Goodwill	11,662	11,662
Other intangibles	723	881
Prepaid expenses and other assets	<u>7,528</u>	<u>6,164</u>
Total assets	<u>\$ 1,048,659</u>	<u>\$ 920,348</u>
<b>LIABILITIES</b>		
Deposits	\$ 757,838	\$ 693,686
Securities sold subject to repurchase agreements	124,127	106,250
Advances from Federal Home Loan Bank	29,000	5,000
Cashier checks issued and payable	1,509	6,501
Accrued interest payable	3,027	1,909
Other borrowings	36,998	22,602
Accrued expenses and other liabilities	<u>6,041</u>	<u>6,320</u>
Total liabilities	<u>958,540</u>	<u>842,268</u>
Commitments and contingent liabilities (Notes 14 and 15)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock 29,040,000 shares authorized; 8,313,005 and 7,423,904 shares issued and 8,248,710 and 6,577,290 shares outstanding	76,746	60,395
Accumulated other comprehensive income (loss), net of tax	1,327	(111)
Retained earnings	<u>12,046</u>	<u>17,796</u>
Total stockholders' equity	<u>90,119</u>	<u>78,080</u>
Total liabilities and stockholders' equity	<u>\$ 1,048,659</u>	<u>\$ 920,348</u>

See accompanying summary of accounting policies and notes to consolidated financial statements.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31,		
	2007	2006	2005
	(Dollars in thousands, except per share amounts)		
<b>Interest income:</b>			
Loans	\$ 65,362	\$ 54,393	\$ 37,897
Investments	7,496	5,187	3,751
Total interest income	<u>72,858</u>	<u>59,580</u>	<u>41,648</u>
<b>Interest expense:</b>			
Deposits	18,769	13,192	8,250
Other borrowings	3,498	2,109	1,177
Short-term borrowings	4,070	2,232	1,290
Total interest expense	<u>26,337</u>	<u>17,533</u>	<u>10,717</u>
Net interest income	46,521	42,047	30,931
Provision for losses on loans	<u>(3,896)</u>	<u>(2,148)</u>	<u>(2,229)</u>
Net interest income after provision for losses on loans	<u>42,625</u>	<u>39,899</u>	<u>28,702</u>
<b>Other income:</b>			
Fees and service charges	8,646	6,726	5,754
Mortgage banking operations	2,749	3,300	2,411
Bank-owned life insurance	314	305	300
Net (loss) on sale of securities	(38)	(987)	(43)
Other income	1,528	1,494	1,198
Total other income	<u>13,199</u>	<u>10,838</u>	<u>9,620</u>
<b>Operating expenses:</b>			
Salaries and employee benefits	25,394	21,859	15,356
Occupancy expense	6,089	4,789	3,927
Advertising	1,330	1,172	767
Fees and service charges	1,404	1,193	974
Printing, postage and supplies	1,466	1,430	1,257
Legal and accounting	1,377	1,418	1,153
Other expenses	3,866	4,099	3,098
Total operating expenses	<u>40,926</u>	<u>35,960</u>	<u>26,532</u>
Income before income taxes	14,898	14,777	11,790
Income tax provision	5,453	5,575	4,308
Net income	<u>\$ 9,445</u>	<u>\$ 9,202</u>	<u>\$ 7,482</u>
Earnings per share — basic	<u>\$ 1.15</u>	<u>\$ 1.15</u>	<u>\$ 1.06</u>
Earnings per share — diluted	<u>\$ 1.10</u>	<u>\$ 1.07</u>	<u>\$ 0.97</u>
Weighted-average shares outstanding — basic	<u>8,206,341</u>	<u>8,035,401</u>	<u>7,078,037</u>
Weighted-average shares outstanding — diluted	<u>8,604,737</u>	<u>8,585,687</u>	<u>7,683,813</u>

See accompanying summary of accounting policies and notes to consolidated financial statements.



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**INTERMOUNTAIN COMMUNITY BANCORP**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<u>Years Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(Dollars in thousands)		
Net income	\$ 9,445	\$ 9,202	\$ 7,482
Other comprehensive income (loss):			
Change in unrealized (losses) gains on investments, net of reclassification adjustments	2,380	2,018	(1,362)
Less deferred income tax benefit (expense)	(942)	(792)	534
Net other comprehensive income (loss)	<u>1,438</u>	<u>1,226</u>	<u>(828)</u>
Comprehensive income	<u>\$ 10,883</u>	<u>\$ 10,428</u>	<u>\$ 6,654</u>

See accompanying summary of accounting policies and notes to consolidated financial statements.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Years Ended December 31, 2007, 2006, and 2005**

	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income (loss)</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
	(Dollars in thousands, except per share data)				
<b>Balance, January 1, 2005</b>	3,784,180	\$ 30,314	\$ (509)	\$ 14,759	\$ 44,564
Net income	—	—	—	7,482	7,482
Equity based compensation	—	79	—	—	79
Restricted Stock Grant	21,520	—	—	—	—
Shares issued upon exercise of stock options	172,419	901	—	—	901
Net unrealized loss on investments	—	—	(828)	—	(828)
Stock split, three-for-two	1,914,911	—	—	—	—
Fractional share redemption	(102)	—	—	(1)	(1)
Common stock issued, net of costs	705,882	11,861	—	—	11,861
Tax benefit associated with stock options	—	215	—	—	215
<b>Balance, December 31, 2005</b>	<u>6,598,810</u>	<u>\$ 43,370</u>	<u>\$ (1,337)</u>	<u>\$ 22,240</u>	<u>\$ 64,273</u>

See accompanying summary of accounting policies and notes to consolidated financial statements.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Years Ended December 31, 2007, 2006, and 2005**

	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
	(Dollars in thousands, except per share data)				
<b>Balance, December 31, 2005</b>	6,598,810	\$ 43,370	\$ (1,337)	\$ 22,240	\$ 64,273
Net income	—	—	—	9,202	9,202
Equity based compensation	—	848	—	—	848
Restricted Stock Grant	19,877	—	—	—	—
Shares issued upon exercise of stock options	101,245	476	—	—	476
Vesting of stock-based compensation awards	26,002	—	—	—	—
Reclassification of liability associated with stock-based compensation plans upon adoption of SFAS 123 (R)	—	1,333	—	—	1,333
Net unrealized gain on investments	—	—	1,226	—	1,226
10% common stock dividend	666,840	13,637	—	(13,637)	—
Fractional share redemption	(32)	—	—	(9)	(9)
Shares issued for business purchase	11,162	255	—	—	255
Tax benefit associated with stock options	—	476	—	—	476
<b>Balance, December 31, 2006</b>	<u>7,423,904</u>	<u>\$ 60,395</u>	<u>\$ (111)</u>	<u>\$ 17,796</u>	<u>\$ 78,080</u>

See accompanying summary of accounting policies and notes to consolidated financial statements.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Years Ended December 31, 2007, 2006 and 2005**

	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
	(Dollars in thousands, except per share data)				
<b>Balance, December 31, 2006</b>	7,423,904	\$ 60,395	\$ (111)	\$ 17,796	\$ 78,080
Net income	—	—	—	9,445	9,445
Equity based compensation	—	486	—	—	486
Restricted Stock Grant	26,177	—	—	—	—
Shares issued upon exercise of stock options	83,664	395	—	—	395
Vesting of stock-based compensation awards	28,604	—	—	—	—
Net unrealized gain on investments	—	—	1,438	—	1,438
10% common stock dividend	750,671	15,186	—	(15,186)	—
Fractional share redemption	(15)	—	—	(9)	(9)
Tax benefit associated with stock options	—	284	—	—	284
<b>Balance, December 31, 2007</b>	<u>8,313,005</u>	<u>\$ 76,746</u>	<u>\$ 1,327</u>	<u>\$ 12,046</u>	<u>\$ 90,119</u>

See accompanying summary of accounting policies and notes to consolidated financial statements.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
<b>Cash flows from operating activities:</b>			
Net income	\$ 9,445	\$ 9,202	\$ 7,482
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity based compensation expense	486	848	79
Excess tax benefit related to stock-based compensation	(226)	(382)	—
Depreciation	2,632	2,095	1,697
Net amortization of premiums on securities	(508)	115	163
Stock dividends on Federal Home Loan Bank of Seattle stock	—	(5)	—
Provisions for losses on loans	3,896	2,148	2,229
Amortization of core deposit intangibles	158	170	186
Net accretion of loan discount	(56)	(89)	(146)
Accretion of deferred gain on sale of branch property	(16)	—	—
Gain (loss) on sale of loans, investments, property and equipment	(350)	243	64
Gain on sale of real estate owned	—	—	(79)
Deferred income tax benefit	(835)	(1,182)	(832)
Increase in cash surrender value of bank-owned life insurance	(314)	(305)	(300)
Change in (net of acquisition of business):			
Loans held for sale	4,744	(3,056)	(203)
Accrued interest receivable	(878)	(2,337)	(1,270)
Prepaid expenses and other assets	(1,816)	(2,424)	(455)
Accrued interest payable	1,118	835	321
Accrued expenses and other liabilities	(4,795)	2,659	2,694
Net cash provided by operating activities	<u>12,685</u>	<u>8,535</u>	<u>11,630</u>
<b>Cash flows from investing activities:</b>			
Net change in certificates of deposit with other institutions	—	—	—
Purchases of available-for-sale securities	(168,065)	(73,278)	(39,159)
Proceeds from calls, maturities or sales of available-for-sale securities	121,627	32,138	43,401
Principal payments on mortgage-backed securities	9,042	7,456	13,248
Purchases of held-to-maturity securities	(5,071)	(649)	(1,929)
Proceeds from calls or maturities of held-to-maturity securities	412	637	541
Purchase of Federal Home Loan Bank of Seattle stock	—	—	(564)
Net increase in loans receivable	(105,432)	(125,777)	(139,693)
Proceeds from sale of loans receivable	8,317	15,541	1,278
Purchase of office properties and equipment	(19,078)	(10,871)	(4,332)
Purchase of business	—	(42)	—
Proceeds from sales of office properties and equipment	2,248	22	38
Improvements and other changes in real estate owned	(280)	776	(242)
Proceeds from sale of other real estate owned	9	47	1,163
Net change in federal funds sold	28,820	(24,305)	(2,750)
Net (increase) decrease in restricted cash	(3,639)	(114)	860
Net cash used in investing activities	<u>(131,090)</u>	<u>(178,419)</u>	<u>(128,140)</u>

See accompanying summary of accounting policies and notes to consolidated financial statements.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(Dollars in thousands)		
<b>Cash flows from financing activities:</b>			
Net increase in demand, money market and savings deposits	40,107	92,731	80,024
Net increase in certificates of deposit	24,036	3,412	16,500
Proceeds from other borrowings	14,428	5,059	—
Proceeds from Federal Home Loan Bank advances	34,000	—	48,000
Repayments of Federal Home Loan Bank advances	(10,000)	—	(48,000)
Net change in repurchase agreements	17,877	68,451	16,898
Principal reduction of note payable	(33)	(116)	—
Excess tax benefit related to stock based compensation	226	382	—
Proceeds from exercise of stock options	396	476	901
Proceeds from common stock offering, net of expenses	—	—	11,861
Redemption of fractional shares of common stock	(9)	(9)	(1)
Net cash provided by financing activities	<u>121,028</u>	<u>170,386</u>	<u>126,183</u>
Net increase in cash and cash equivalents	2,623	502	9,673
Cash and cash equivalents, beginning of year	24,377	23,875	14,202
Cash and cash equivalents, end of year	<u>\$ 27,000</u>	<u>\$ 24,377</u>	<u>\$ 23,875</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the period for:			
Interest	\$ 27,152	\$ 16,674	\$ 10,325
Income taxes	\$ 5,858	\$ 6,620	\$ 4,468
<b>Noncash investing and financing activities:</b>			
Common stock dividends	\$ 15,186	\$ 13,637	\$ —
Restricted shares issued	\$ 719	\$ 491	\$ 344
Deferred gain on sale/leaseback of branch property	\$ 307	\$ —	\$ —
Purchase of land	\$ —	\$ 1,130	\$ —
Loans converted to Other Real Estate Owned	\$ 616	\$ 398	\$ —
Common stock issued upon business combination	\$ —	\$ 255	\$ —

See accompanying summary of accounting policies and notes to consolidated financial statements.

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## INTERMOUNTAIN COMMUNITY BANCORP

### SUMMARY OF ACCOUNTING POLICIES

#### Organization

Intermountain Community Bancorp (“Intermountain” or “the Company”) is a financial holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Panhandle State Bank (“the Bank”). The Bank is a state chartered commercial bank under the laws of the state of Idaho. At December 31, 2007, the Bank had eight branch offices in northern Idaho, five in southwestern Idaho, three in southcentral Idaho, two branches in eastern Washington and one branch in eastern Oregon operating under the names of Panhandle State Bank, Intermountain Community Bank and Magic Valley Bank. It also had a loan production office operating under the name Intermountain Community Bank in southwestern Idaho.

Intermountain provides customized quality financial services and banking products to its customers through experienced, highly trained staff who are long-time residents of its local markets. Intermountain believes this philosophy has allowed it to grow rapidly in its market areas. With \$1.05 billion in total assets as of December 31, 2007, Intermountain originates loans and attracts Federal Deposit Insurance Corporation (“FDIC”) insured deposits from the general public through 19 branches and one loan production office located in Washington, Oregon, and Idaho. In addition, Intermountain also markets trust and wealth management services through its Trust Division and fixed income and equity products, mutual funds, fixed and variable annuities and other financial products through Intermountain Community Investments.

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### Cash and Cash Equivalents

Cash equivalents are any highly liquid debt instruments with a remaining maturity of three months or less at the date of purchase. Cash and cash equivalents are on deposit with other banks and financial institutions in amounts that periodically exceed the federal insurance limit. Intermountain evaluates the credit quality of these banks and financial institutions to mitigate its credit risk.

#### Restricted Cash

Restricted cash represents the required reserve balances maintained to comply with Federal Reserve Bank requirements.

#### Investments

Intermountain classifies debt and equity investments as follows:

- *Available-for-Sale.* Debt and equity investments that will be held for indefinite periods of time are classified as available-for-sale and are carried at market value. Market value is determined using published quotes or other indicators of value as of the close of business. Unrealized gains and losses that are considered temporary are reported, net of deferred income taxes, as a component of accumulated other comprehensive income or loss in stockholders’ equity until realized.
- *Federal Home Loan Bank of Seattle Stock.* Federal Home Loan Bank (“FHLB”) of Seattle stock may only be redeemed by FHLB Seattle or sold to another member institution at par. Therefore, this investment is carried at cost.
- *Held-to-Maturity.* Investments in debt securities that management has the intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**SUMMARY OF ACCOUNTING POLICIES — (Continued)**

Premiums are amortized and discounts are accreted using the level-interest-yield method over the estimated remaining term of the underlying security. Realized gains and losses on sales of investments and mortgage-backed securities are recognized in the statement of income in the period sold using the specific identification method.

**Loans Held for Sale**

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses on sales of mortgage loans are recognized based on the differences between the selling price and the carrying value of the mortgage loans sold.

The Company records a transfer of financial assets as a sale when it surrenders control over those financial assets to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The Company considers control surrendered when all conditions prescribed by Statement of Financial Accounting Standards (“SFAS”) No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities” are met. Those conditions focus on whether the transferred assets are isolated beyond the reach of the Company and its creditors, the constraints on the transferee or beneficial interest holders, and the Company’s rights or obligations to reacquire transferred financial assets.

**Loans Receivable**

Loans receivable that management of Intermountain has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance less any unearned income, premiums or discounts and an associated allowance for losses on loans. Unearned income includes deferred loan origination fees reduced by loan origination costs.

Loans are classified as impaired when, based on current information and events, it is probable the Bank will be unable to collect all amounts as scheduled under the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral, if the loan is collateral dependent. Changes in these values are reflected in income through charges to the provision for loan losses.

Interest income is recognized over the term of the loans receivable based on the unpaid principal balance. The accrual of interest on impaired loans is discontinued when, in management’s opinion, the borrower may be unable to make payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is then subsequently recognized only to the extent cash payments are received in excess of principal due.

**Allowance for Losses on Loans**

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A reserve for unfunded commitments is maintained at a level that, in the opinion of management, is adequate to absorb probable losses associated with the Bank’s commitment to lend funds under existing agreements such as letters or lines of credit. Management determines the adequacy of the reserve for unfunded commitments based upon reviews of individual credit facilities, current economic conditions, the risk characteristics of the various



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**INTERMOUNTAIN COMMUNITY BANCORP**  
**SUMMARY OF ACCOUNTING POLICIES — (Continued)**

categories of commitments and other relevant factors. The reserve is based on estimates, and ultimate losses may vary from the current estimates. These estimates are evaluated on a regular basis and, as adjustments become necessary, they are recognized in earnings in the periods in which they become known through charges to other non-interest expense. Draws on unfunded commitments that are considered uncollectible at the time funds are advanced are charged to the reserve for unfunded commitments. Provisions for unfunded commitment losses, and recoveries on commitment advances previously charged-off, are added to the reserve for unfunded commitments, which is included in the Other Liabilities section of the Consolidated Statements of Financial Condition.

**Loan Origination and Commitment Fees**

Loan origination fees, net of direct origination costs, are deferred and recognized as interest income using the level interest yield method over the contractual term of each loan adjusted for actual loan prepayment experience.

Loan commitment fees are deferred until the expiration of the commitment period unless management believes there is a remote likelihood that the underlying commitment will be exercised, in which case the fees are amortized to fee income using the straight-line method over the commitment period. If a loan commitment is exercised, the deferred commitment fee is accounted for in the same manner as a loan origination fee. Deferred commitment fees associated with expired commitments are recognized as fee income.

**Other Real Estate Owned**

Properties acquired through, or in lieu of, foreclosure of defaulted real estate loans are carried at the lower of cost or fair value (less estimated costs to sell). Development and improvement costs related to the property are capitalized to the extent they are deemed to be recoverable. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less costs to sell. Expenses for maintenance and changes in the valuation are charged to earnings. Other real estate owned is included with prepaid expenses and other assets on the consolidated balance sheet.

**Office Properties and Equipment**

Office properties and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from two to thirty years. Expenditures for new properties and equipment and major renewals or betterments are capitalized. In the case where the Company constructs a facility and the construction period is lengthy, interest expense will be capitalized and added to the cost of the facility. Expenditures for repairs and maintenance are charged to expense as incurred. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective property or equipment accounts, and the resulting gains or losses are reflected in operations.

**Bank-Owned Life Insurance**

Bank-owned life insurance (BOLI) is carried at the initial premium paid for the policies plus the increase in the cash surrender value.

**Goodwill and Other Intangibles**

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill and intangible assets with indefinite lives are not amortized, but are subject to impairment tests at least annually. Intangible assets with finite lives, including core deposit intangibles, are amortized over the estimated life of the depositor relationships acquired.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**SUMMARY OF ACCOUNTING POLICIES — (Continued)**

**Advertising and Promotion**

The Company expenses all costs associated with its advertising and promotional efforts as incurred. Those costs are included with operating expenses on the consolidated statements of income.

**Income Taxes**

Intermountain accounts for income taxes using the liability method, which requires that deferred tax assets and liabilities be determined based on the temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities and tax attributes using enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

**Earnings Per Share**

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding increased by the additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

**Equity Compensation Plans**

The Company maintains an Equity Participation Plan under which the Company has granted non-qualified and incentive stock options and restricted stock to employees and non-employee directors. Effective January 1, 2006, the Company adopted FASB Statement No. 123(R), "Share-Based Payments", using the modified prospective method, and the fair value recognition provision of the "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" ("FSP 123R"). Using the alternative transition method, the Company elected to adopt the alternative transition method provided in FSP 123R-3 for calculating the tax effects of stock-based compensation. The alternative transition method includes simplified methods to establish the beginning balance of the additional-paid-in-capital pool ("APIC pool") related to the tax effects of stock-based compensation, and for determining the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of stock-based compensation awards that are outstanding upon adoption of SFAS 123 (R).

Prior to 2006, the Company applied the disclosure-only provision of SFAS No. 123 as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." The Company measured compensation cost for stock-based employee compensation plans using the intrinsic value method of accounting prescribed by Accounting Principals Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." All of the stock options are granted at market value on the date of grant. Accordingly, no compensation expense was recognized in 2005 for options related to the stock option plan. Restricted stock grants, however, are subject to a five-year vesting period, and the fair values on issuance date of these grants were expensed on a straight line basis over the life of the grant.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, valuation of investments, deferred tax assets and liabilities and valuation and recoverability of goodwill and intangible assets.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**SUMMARY OF ACCOUNTING POLICIES — (Continued)**

**Business Combinations**

Pursuant to SFAS No. 141 “Business Combinations”, Intermountain’s mergers and acquisitions are accounted for under the purchase method of accounting. Accordingly, the assets and liabilities of the acquired entities are recorded by Intermountain at their respective fair values at the date of the acquisition and the results of operations are included with those of Intermountain commencing with the date of acquisition. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed, including identifiable intangible assets, is recorded as goodwill.

**Reclassifications**

Certain amounts in the 2006 financial statements have been reclassified to conform with the current year’s presentation. These reclassifications had no effect on total stockholders’ equity or net income as previously reported.

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141 (R), “Business Combinations” (“SFAS No. 141 (R)”). SFAS No. 141 (R) establishes principles and requirements for how the acquirer: 1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141 (R) applies prospectively to business combinations entered into by the Company after January 1, 2009. The Company intends to continue to pursue a long term growth strategy, which may include acquiring other financial institutions. As such, SFAS No. 141 (R) may have a material effect on the Company, mainly in regards to the valuation of loans, and the treatment for acquisition costs.

In November 2007, the SEC issued Staff Accounting Bulletin 109 (“SAB 109”) regarding the valuation of loan commitments. SAB 109 supersedes SAB 105, and states that in measuring the fair value of a derivative loan commitment, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 109 will be effective for the Company as of January 1, 2008. The Company is currently evaluating the impact, if any, of SAB 109 on future periods.

In February 2007, FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”). SFAS No. 159 provides a fair value measurement election for many financial instruments, on an instrument by instrument basis. SFAS No. 159 will be effective for the Company as of January 1, 2008. The Company is currently evaluating whether to make the SFAS No. 159 fair value election on any of its financial instruments.

In September 2006, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.” EITF Issue No. 06-4 will be effective for the Company as of January 1, 2008. The Company has evaluated the impact of EITF Issue No. 06-4 on future periods and has determined the amount to be immaterial.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 will be effective for the Company as of January 1, 2008. The Company is currently assessing the impact of this standard and does not expect SFAS No. 157 to have a material effect on its consolidated financial statements.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Investments**

The amortized cost and fair values of investments are as follows (in thousands):

	<u>Available-for-Sale</u>			<u>Fair Value/ Carrying Value</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
<b>December 31, 2007</b>				
U.S. treasury securities and obligations of U.S. government agencies	\$ 61,740	\$ 1,313	\$ (101)	\$ 62,952
Mortgage-backed securities	94,754	1,518	(533)	95,739
State and municipal securities	100	—	—	100
	<u>\$ 156,594</u>	<u>\$ 2,831</u>	<u>\$ (634)</u>	<u>\$ 158,791</u>
<b>December 31, 2006</b>				
U.S. treasury securities and obligations of U.S. government agencies	\$ 78,754	\$ 701	\$ (826)	\$ 78,629
Mortgage-backed securities	39,616	308	(365)	39,559
State and municipal securities	303	—	(1)	302
	<u>\$ 118,673</u>	<u>\$ 1,009</u>	<u>\$ (1,192)</u>	<u>\$ 118,490</u>

	<u>Held-to-Maturity</u>			<u>Fair Value</u>
	<u>Carrying Value/ Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
<b>December 31, 2007</b>				
State and municipal securities	\$ 11,324	\$ 49	\$ (117)	\$ 11,256
<b>December 31, 2006</b>				
State and municipal securities	\$ 6,719	\$ 4	\$ (88)	\$ 6,635

For the years ended December 31, 2007, 2006, and 2005 gross realized gains on sales of available-for-sale securities were \$0, \$0, and \$6,670 with gross realized losses amounting to \$37,547, \$986,854, and \$49,966 respectively. Proceeds from sales of available-for-sale securities were \$17,722,306, \$25,637,465 and \$20,266,440 for the years ended December 31, 2007, 2006 and 2005, respectively.

Securities with a fair value of approximately \$122.2 million and \$118.1 million at December 31, 2007 and 2006, respectively, were pledged to secure public deposits, repurchase agreements and other purposes required and/or permitted by law.

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At December 31, 2007, the amortized cost and fair value of available-for-sale and held-to-maturity debt securities, by contractual maturity, follows (in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$ 12,846	\$ 12,791	\$ 1,276	\$ 1,275
After one year through five years	16,994	16,949	2,324	2,295
After five years through ten years	32,000	33,312	1,910	1,952
After ten years	—	—	5,814	5,734
	61,840	63,052	11,324	11,256
Mortgage-backed securities	94,754	95,739	—	—
	<u>\$ 156,594</u>	<u>\$ 158,791</u>	<u>\$ 11,324</u>	<u>\$ 11,256</u>

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.

The following table summarizes the duration of Intermountain's unrealized losses on available-for-sale and held-to-maturity securities as of the dates indicated (in thousands).

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2007						
U.S. treasury securities and obligations of U.S. government agencies	\$ —	\$ —	\$ 27,639	\$ 101	\$ 27,639	\$ 101
State and municipal securities	3,459	85	3,469	32	6,928	117
Mortgage-backed securities	24,461	418	9,779	115	34,240	533
Total	<u>\$ 27,920</u>	<u>\$ 503</u>	<u>\$ 40,887</u>	<u>\$ 248</u>	<u>\$ 68,807</u>	<u>\$ 751</u>

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2006						
U.S. treasury securities and obligations of U.S. government agencies	\$ 15,020	\$ 2	\$ 30,910	\$ 824	\$ 45,930	\$ 826
State and municipal securities	15	—	5,270	89	5,285	89
Mortgage-backed securities	225	1	13,926	364	14,151	365
Total	<u>\$ 15,260</u>	<u>\$ 3</u>	<u>\$ 50,106</u>	<u>\$ 1,277</u>	<u>\$ 65,366</u>	<u>\$ 1,280</u>

Intermountain's investment portfolios are managed to provide and maintain liquidity; to maintain a balance of high quality, diversified investments to minimize risk; to provide collateral for pledging; and to maximize returns. Management believes that all unrealized losses as of December 31, 2007 and 2006 to be market driven, with no permanent sector or issuer credit concerns or impairments. The Company has the ability to retain these securities until recovery of loss occurs.

[Table of Contents](#)**INTERMOUNTAIN COMMUNITY BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****2. Loans Receivable**

The components of loans receivable are as follows (in thousands):

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Commercial	\$ 623,439	\$ 527,345
Residential	114,010	112,569
Consumer	26,285	31,800
Municipal	5,222	4,082
Total loans receivable	768,956	675,796
Allowance for loan losses	(11,761)	(9,837)
Deferred loan fees, net of direct origination costs	(646)	(1,074)
Loans receivable, net	<u>\$ 756,549</u>	<u>\$ 664,885</u>
Weighted average interest rate	<u>8.16%</u>	<u>8.65%</u>

An analysis of the changes in the allowance for losses on loans is as follows (in thousands):

	<b>Years Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Allowance for loan losses, beginning of year	\$ 9,837	\$ 8,100	\$ 6,309
Acquired reserve from business combination	—	—	—
Loans charged off	(2,044)	(793)	(792)
Recoveries	75	447	274
Allowance related to loan sales	0	—	(96)
Transfers	(3)	(65)	176
Provision for losses on loans	3,896	2,148	2,229
Allowance for loan losses, end of year	<u>\$ 11,761</u>	<u>\$ 9,837</u>	<u>\$ 8,100</u>
Allowance — Unfunded Commitments Balance Beginning December 31	\$ 482	\$ 417	\$ 593
Adjustment	(467)	—	—
Transfers	3	65	(176)
Allowance — Unfunded Commitments at end of period	<u>18</u>	<u>482</u>	<u>417</u>

As required by bank regulatory guidance issued in 2007, the allowance for unfunded commitments was removed from the allowance for loan loss and reclassified to other liabilities. This change had a small impact on the consolidated balance sheets, increasing 2007 and 2006 net loans receivable and other liabilities by \$18,000 and \$482,000 respectively.

Loans that are not performing in accordance with their original contractual terms at December 31, 2007 and 2006 were approximately \$6,366,000 and \$1,288,000, respectively. The total allowance for losses related to these loans at December 31, 2007 and 2006 was \$585,000 and \$534,000, respectively.

For loans on non-accrual status, interest income of approximately \$270,000, \$230,000, and \$8,000 was recorded for the years ended December 31, 2007, 2006, and 2005, respectively. If these non-accrual loans had

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performed in accordance with their original contract terms, additional income of approximately \$161,000, \$21,000, and \$95,000 would have been recorded for the years ended December 31, 2007, 2006, and 2005, respectively.

The Company's investment in impaired loans for December 31, 2007 and December 31, 2006 was \$6,492,000 and \$4,762,000, respectively. The Company's investment in other real estate owned for December 31, 2007 and December 31, 2006 was \$1,682,000 and \$795,000, respectively.

At December 31, 2007, the contractual principal payments due on outstanding loans receivable are shown below (in thousands). Actual payments may differ from expected payments because borrowers have the right to prepay loans, with or without prepayment penalties.

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 426,805
2009	75,707
2010	39,622
2011	34,571
2012	41,882
Thereafter	150,369
	<u>\$ 768,956</u>

The Company sells mortgage loans and Small Business Administration Loans in the secondary market. For the years ended December 31, 2007, 2006 and 2005, the gains on sale of loans and the volumes of loans sold were \$2,749,000 and \$116,871,000, \$3,300,000 and \$133,314,000 and \$2,411,000 and \$102,248,000, respectively.

**3. Office Properties and Equipment**

The components of office properties and equipment as of December 31, 2007 and 2006, are as follows (in thousands):

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 5,220	\$ 5,121
Buildings and improvements	14,619	11,991
Construction in progress	18,478	6,056
Furniture and equipment	15,453	11,580
	53,770	34,748
Less accumulated depreciation	(11,680)	(9,304)
	<u>\$ 42,090</u>	<u>\$ 25,444</u>

The construction in progress balance is related to the building of the 94,000 square foot Sandpoint Center. The Company anticipates the Sandpoint Center will cost approximately \$8.0 million more to complete and furnish the building, which is scheduled to be completed in the second quarter 2008. The Company anticipates selling the Sandpoint Center and leasing approximately 47,000 square feet from the ultimate owner. The Spokane Valley branch, which opened in August 2007, cost approximately \$4.4 million to complete and furnish. During the year ended December 31, 2007 the Company capitalized \$530,000 in interest and applied this amount to construction in progress. Depreciation expense for the years ended December 31, 2007, 2006, and 2005 was approximately \$2,632,000, \$2,095,000 and \$1,697,000, respectively.

[Table of Contents](#)**INTERMOUNTAIN COMMUNITY BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****4. Goodwill and Other Intangible Assets**

Intermountain has goodwill and core deposit intangible assets which were recorded in connection with business combinations (see Note 21). The value of the core deposit intangibles is amortized over the estimated life of the depositor relationships. At December 31, 2007 and 2006, the net carrying value of core deposit intangibles was approximately \$723,000 and \$881,000, respectively. Accumulated amortization at December 31, 2007 and 2006 was approximately \$674,000 and \$516,000, respectively. Amortization expense related to core deposit intangibles for the years ended December 31, 2007, 2006 and 2005 was approximately \$158,000, \$170,000 and \$186,000, respectively. Intangible amortization for each of the next five years is estimated to be as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 146
2009	137
2010	129
2011	122
2012	116
	<u>\$ 650</u>

The changes in carrying value of goodwill for the years ended December 31, 2007 and 2006 are as follows (in thousands):

	<u>Amount</u>
Balance as of January 1, 2006	\$ 11,399
Goodwill acquired during the year	263
Balance as of December 31, 2006	11,662
Goodwill acquired during the year	0
Balance as of December 31, 2007	<u>\$ 11,662</u>

The Company evaluates its goodwill for impairment at least annually. There was no impairment in 2007 and 2006.



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**INTERMOUNTAIN COMMUNITY BANCORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**5. Deposits**

The components of deposits and applicable yields as of December 31, 2007 and 2006, are as follows (in thousands):

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Demand	\$ 159,069	\$ 141,601
NOW and money market 0.0% to 5.50%	308,857	291,412
Savings and IRA 0.0% to 5.75%	87,149	81,955
	<u>555,075</u>	<u>514,968</u>
Certificate of deposit accounts:		
Up to 1.99%	1	35
2.00% to 2.99%	788	1,397
3.00% to 3.99%	30,181	38,651
4.00% to 4.99%	104,940	95,538
5.00% to 5.99%	66,831	43,097
6.00% to 6.99%	22	—
	<u>202,763</u>	<u>178,718</u>
Total deposits	<u>\$ 757,838</u>	<u>\$ 693,686</u>

The weighted average interest rate paid on certificate of deposit accounts was 4.57% and 4.47% at December 31, 2007 and 2006, respectively.

At December 31, 2007, the scheduled maturities of certificate of deposit accounts are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Weighted Average Interest Rate</u>	<u>Amounts</u>
2008	4.57%	\$ 165,949
2009	4.03%	8,312
2010	4.94%	25,582
2011	4.74%	1,544
2012	4.51%	1,309
Thereafter	4.48%	67
		<u>\$ 202,763</u>

At December 31, 2007, the remaining maturities of certificate of deposit accounts with a minimum balance of \$100,000 were as follows (in thousands):

	<u>Amounts</u>
Less than three months	\$ 55,059
Three to six months	25,708
Six to twelve months	7,988
Over twelve months	27,880
	<u>\$ 116,635</u>

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The components of interest expense associated with deposits are as follows (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
NOW and money market accounts	\$ 9,277	\$ 4,927	\$ 2,129
Savings and IRA accounts	1,038	911	690
Certificate of deposit accounts	8,454	7,354	5,431
	<u>\$ 18,769</u>	<u>\$ 13,192</u>	<u>\$ 8,250</u>

#### **6. Securities Sold Subject To Repurchase Agreements**

Securities sold under agreements to repurchase, which are classified as 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. These agreements have a weighted average interest rate of 4.69% and 5.03% at December 31, 2007 and 2006, respectively. Approximately \$94.1 million of the repurchase agreements mature on a daily basis, while the remaining balance of \$30.0 million has a variable interest rate of 5.87% and matures in July 2011. The interest rate reindexes quarterly and is based on 90 Day LIBOR. At December 31, 2007 and 2006, the Company pledged as collateral, certain investment securities with aggregate amortized costs of \$120.8 million and \$118.2 million, respectively. These investments securities had market values of \$122.2 million and \$118.1 million at December 31, 2007 and 2006, respectively.

#### **7. Advances From Federal Home Loan Bank**

During June of 2003 the Bank obtained an advance from the Federal Home Loan Bank of Seattle (FHLB Seattle) in the amount of \$5,000,000. The note is due in 2008 with interest only payable monthly at 2.71%. During September 2007, the Bank obtained two advances from the FHLB Seattle in the amounts of \$10,000,000 and \$14,000,000 with interest payable at 4.96% and 4.90% and maturities in September 2010 and September 2009, respectively.

Advances from FHLB Seattle are collateralized by certain qualifying loans with a carrying value of approximately \$29,000,000 at December 31, 2007. The Bank's credit line with FHLB Seattle is limited to a percentage of its total regulatory assets subject to collateralization requirements. At December 31, 2007, Intermountain had the ability to borrow an additional \$59,477,000 from FHLB Seattle. Intermountain would be able to borrow amounts in excess of this total from the FHLB Seattle with the placement of additional available collateral.

#### **8. Other Borrowings**

In January 2003, the Company issued \$8.0 million of Trust Preferred securities through its subsidiary, Intermountain Statutory Trust I. The debt associated with these securities bears a fixed interest rate of 6.75%, with interest only paid quarterly starting in June 2003. The debt is callable by the Company in March 2008 and matures in March 2033.

In March 2004, the Company issued \$8.0 million of Trust Preferred securities through its subsidiary, Intermountain Statutory Trust II. The debt is callable by the Company after five years, requires quarterly interest only payments, bears interest on a variable basis tied to the 90 day LIBOR (London Inter-Bank Offering Rate) index plus 2.8% and matures in April 2034. The rate on this borrowing was 8.04% at December 31, 2007.

Overnight-unsecured borrowing lines have been established at US Bank, Wells Fargo, Pacific Coast Bankers Bank, the Federal Home Loan Bank of Seattle and with the Federal Reserve Bank of San Francisco. At December 31, 2007, the Company had approximately \$50.0 million of overnight funding available from the unsecured sources and \$59.5 million from the FHLB Seattle. The Company had no fed funds purchased. In addition,



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\$2 to \$5 million in funding is available on a semi-annual basis from the State of Idaho in the form of negotiated certificates of deposit.

In March 2007, the Company entered into an additional borrowing agreement with Pacific Coast Bankers Bank in the amount of \$18.0 million which was raised to \$25.0 million in December 2007. The borrowing agreement is a revolving line of credit with a variable rate of interest tied to LIBOR with a maturity of January 18, 2009. The collateral for the credit line is all of the Bank stock and the Sandpoint Center, which is currently under construction. Under the restrictive covenants of this borrowing agreement, Intermountain cannot incur additional debt over \$5.0 million without Pacific Coast Bankers Bank's consent, and Intermountain is obligated to provide information regarding the loan portfolio on a regular basis. At December 31, 2007, the balance outstanding was \$19,488,000 at 6.73%.

In January 2006, the Company purchased land to build the 94,000 square foot Sandpoint Center in Sandpoint, Idaho. It entered into a Note Payable with the sellers of the property in the amount of \$1,130,000. The note has a fixed rate of 6.65%, matures on February 23, 2026 and had an outstanding balance of \$982,206 at December 31, 2007.

**9. Income Taxes**

The tax effects of the principal temporary differences giving rise to deferred tax assets and liabilities as of December 31, 2007 and 2006 were as follows (in thousands):

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Allowance for losses on loans	\$ 4,373	\$ —	\$ 3,644	\$ —
Investments	—	(870)	73	—
FHLB stock	—	(74)	—	(74)
Office properties and equipment	—	(462)	—	(554)
Deferred compensation	612	—	779	—
Core deposit intangible	—	(101)	—	(145)
Other	—	(209)	—	(151)
Total deferred income taxes	\$ 4,985	\$ (1,716)	\$ 4,496	\$ (924)

A valuation allowance against deferred tax assets has not been established as it is more likely than not that these assets will be realized through the refund of prior years' taxes or the generation of future taxable income. Net deferred tax assets of approximately \$3,269,000 and \$3,572,000 as of December 31, 2007 and 2006, respectively, are included in prepaid expenses and other assets on the consolidated balance sheets.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The components of Intermountain's income tax provision are as follows (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current income taxes:			
Federal	\$ 5,346	\$ 5,682	\$ 4,307
State	942	1,075	833
Deferred income taxes:	6,288	6,757	5,140
Federal	(526)	(1,138)	(943)
State	(309)	(44)	111
Total deferred income tax benefit	(835)	(1,182)	(832)
Total income tax provision	<u>\$ 5,453</u>	<u>\$ 5,575</u>	<u>\$ 4,308</u>

A reconciliation of the income tax provision and the amount of income taxes computed by applying the statutory federal corporate income tax rate to income before income taxes for the years ended December 31, 2007, 2006 and 2005, is as follows (in thousands):

	<u>2007</u>		<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Income tax provision at federal statutory rate	\$ 5,215	35.0%	\$ 5,073	34.3%	\$ 4,009	34.0%
Tax effect of:						
State taxes (net of federal tax benefit)	510	3.4%	550	3.7%	444	3.8%
Tax exempt income and other, net	(272)	(1.8)%	(48)	(0.3)%	(145)	(1.3)%
	<u>\$ 5,453</u>	<u>36.6%</u>	<u>\$ 5,575</u>	<u>37.7%</u>	<u>\$ 4,308</u>	<u>36.5%</u>

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). This pronouncement requires a certain methodology for measuring and reporting uncertain tax positions, as well as disclosures regarding such tax positions. FIN No. 48 became effective for Intermountain as of January 1, 2007. Intermountain has performed an analysis of its uncertain tax positions and has not recorded any potential penalties, interest or additional tax in its financial statements as of December 31, 2007. Intermountain's tax positions for the years 2003 through 2006 remain subject to review by the Internal Revenue Service. Intermountain does not expect unrecognized tax benefits to significantly change within the next twelve months.

## 10. Stock-Based Compensation Plans

On August 18, 1999, the shareholders of Intermountain approved two stock option plans, one for certain key employees of the Bank (the 1999 Employee Stock Option Plan) and another for the Directors of Intermountain (the Director Stock Option Plan). The 1999 Employee Stock Option Plan replaced a 10-year plan that expired in February 1998.

In December 2003, the Board of Directors amended the 1999 Employee Stock Option Plan to provide for 291,100 shares of common stock in Intermountain to be granted as either qualified or nonqualified incentive stock options at a price not less than the greater of (1) the fair market value of the common stock, or (2) the net book value of the common stock at the time of the grant. Additionally, if the grant is an incentive option to an employee owning 10 percent or more of common stock, then the issue price cannot be less than 110 percent of the fair market value of the common stock at the time of issue. These options vest over a period up to five years and expire in 10 years.

At a shareholder meeting held on December 17, 2003, amendments were approved to allow the issuance of restricted shares and to increase the number of shares allocated to the 1999 Employee Stock Option Plan to 582,200



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subject to a 2-for-1 stock split which was effective December 29, 2003. Under the amended 1999 Employee Stock Option Plan, 185,166 options remain available for grant as either stock options or restricted shares as of December 31, 2007.

The Directors Stock Option Plan was adopted to provide incentives to Directors of Intermountain thereby helping to attract and retain the best available individuals for positions as directors of the corporation. In April 2005, the plan was amended to allow for the issuance of restricted shares. The plan provides for a total of 161,051 common stock options at a price not less than the greater of (1) the fair market value of the common stock, or (2) the net book value of the common stock at the time of the grant. These options vest over a five-year term and expire in 10 years. At December 31, 2007, 62,233 options remain available for grant as either stock options or restricted shares under this Plan.

During 2007, 2006 and 2005, the Company granted restricted stock to its directors and employees from the Director Option Plan and the 1999 Employee Stock Option Plan. These restricted stock grants vest evenly over a five-year period. The Company did not grant stock options during 2007, 2006 or 2005.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of options. In addition, option valuation models require the input of highly subjective assumptions, particularly for the expected term and stock price volatility. The employee stock options do not trade on a secondary exchange, therefore employees do not derive a benefit from holding stock options unless there is an appreciation in the market price of the stock above the grant price. Such an increase in stock price would benefit all shareholders commensurately. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and our experience. The fair value of each restricted share is based on the fair market value at the date of grant. The Company records compensation expense based on the determined fair value.

Prior to 2006, we adopted disclosure-only provisions of SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. The company chose to measure compensation cost for stock-based employee compensation plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*. All stock options were granted at market value on the date of grant. Accordingly, no compensation expense was recognized in 2005 for options related to the stock option plans. The company adopted the provisions of SFAS 123 (R), Share Based Payment on January 1, 2006, using the modified prospective method of adoption.

Total stock-based compensation expense recognized in the consolidated statement of operations for the years ended December 31, 2007 and 2006 was \$486,000 and \$848,000 before income taxes, respectively. Of the total stock-based compensation expense during the years ended December 31, 2007 and 2006, stock option expense was \$196,000 and \$141,000, restricted stock expense was \$244,000 and \$661,000 and other expense related to stock options issued below market price at issue date totaled \$46,000 and \$46,000, respectively. The Company has approximately \$135,000 remaining to expense related to the non-vested stock options outstanding at December 31, 2007. This expense will be recorded over a weighted average remaining period of 12 months.

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## INTERMOUNTAIN COMMUNITY BANCORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Had compensation cost for the stock option plans been determined based on fair value at the grant dates under the Plan consistent with the method of SFAS 123 (R), net income and net income per share amounts for the year ended 2005 would have been changed to the pro-forma amount indicated below (in thousands except per share data). Disclosures for 2007 and 2006 are not presented as the amounts are recognized in the consolidated financial statements.

	<b>Year Ended December 31, 2005</b>
<b>Reported net income</b>	\$ 7,482
Add back: Stock-based employee compensation expense, net of related tax effects	48
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(158)</u>
<b>Pro forma net income</b>	<u>\$ 7,372</u>
<b>Basic earnings per share(1):</b>	
Reported earnings per share	\$ 1.06
Stock-based employee compensation, fair value	<u>(0.02)</u>
Pro forma earnings per share	<u>\$ 1.04</u>
<b>Dilutive earnings per share(1):</b>	
Reported earnings per share	\$ 0.97
Stock-based employee compensation, fair value	<u>(0.02)</u>
Pro forma earnings per share	<u>\$ 0.95</u>

(1) Basic and Dilutive earnings per share have been adjusted for the 10% common stock dividend payable May 31, 2007 to shareholders of record on May 15, 2007.

Prior to the adoption of SFAS 123 (R), the Company presented all tax benefits resulting from the exercise of stock options as operating cash inflows in the consolidated statements of cash flows, in accordance with the provisions of the Emerging Issues Tax Force ("EITF") Issue No. 00-15, *Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option*. SFAS 123 (R) requires the benefits of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. This amount is shown as "Excess tax benefit from stock-based compensation on the consolidated statement of cash flows.



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## INTERMOUNTAIN COMMUNITY BANCORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock option transactions for all of the above described plans are summarized as follows:

	Number of Shares(1)	Weighted Average Exercise Price(1)	Exercise Price Per Share	Weighted Average Remaining life (Years)	Aggregate Intrinsic Value(2) (Dollars in thousands)
Balance, December 31, 2004	972,329	\$ 4.87	\$ 1.56 — 13.20		
Options granted	—	—	—		
Options exercised	(238,513)	3.91	1.55 — 13.20		\$ 2,489
Options forfeited and canceled	(35,716)	6.46	3.72 — 13.20		
Outstanding, December 31, 2005	698,100	5.17	2.68 — 13.20	4.79	3,606
Options granted	—	—	—		
Options exercised	(114,352)	4.16	2.68 — 13.20		1,833
Options forfeited and canceled	(7,821)	6.44	0.00 — 12.95		
Outstanding, December 31, 2006	575,927	5.35	2.68 — 13.20	4.04	3,085
Options granted	—	—	—		
Options exercised	(86,726)	4.55	2.68 — 13.20		1,192
Options forfeited and canceled	(1,872)	11.09	7.99 — 13.20		
Outstanding, December 31, 2007	<u>487,329</u>	<u>\$ 5.48</u>	<u>\$ 2.79 — 13.20</u>	<u>3.12</u>	<u>\$ 4,640</u>

- (1) Shares and Weighted-Average Exercise Price have been adjusted for the 10% common stock dividend payable May 31, 2007 to shareholders of record on May 15, 2007.
- (2) The aggregate intrinsic value is before applicable income taxes, based on the Company's \$15.00 closing stock price at December 31, 2007, which would have been received by the optionees had all options been exercised on that date.

The following table presents information about the options as of December 31, 2007:

Range of Exercise Price	Total Outstanding			Exercisable	
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Number of Shares	Weighted Average Exercise Price
\$ 2.64 - \$ 3.92	75,942	\$ 3.71	3.1	75,942	\$ 3.71
\$ 3.92 - \$ 4.54	230,698	4.40	1.3	230,698	4.40
\$ 4.54 - \$ 5.16	44,663	4.79	5.2	33,410	4.79
\$ 5.16 - \$ 5.78	66,362	5.51	5.0	57,755	5.51
\$ 5.78 - \$ 6.40	15,641	6.11	5.0	12,653	6.06
\$ 8.62 - \$12.75	7,987	12.38	6.2	5,445	12.38
\$12.75 - \$13.38	46,036	12.99	6.4	26,330	12.99
	<u>487,329</u>	<u>\$ 5.48</u>	<u>3.0</u>	<u>442,233</u>	<u>\$ 5.12</u>

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The number of shares and exercise prices have been adjusted for the 10% common stock dividend effective May 31, 2007.

As of December 31, 2007, total unrecognized stock-based compensation expense related to non-vested stock options and restricted stock grants was approximately \$1.3 million, which was expected to be recognized over a period of approximately 3.3 years. During the year ended December 31, 2007, 2006 and 2005, the intrinsic value of stock options exercised was \$1.2 million, \$1.8 million and \$2.5 million, and the total fair value of the options vested was \$161,000, \$284,000 and \$333,000, respectively

Restricted Stock transactions are summarized as follows:

	<b>Number of Shares(1)</b>	<b>Weighted Average Grant Date Fair Value(1)</b>
Nonvested shares		
Balance, December 31, 2004	—	—
Shares granted	26,039	\$ 14.58
Shares vested	—	—
Shares forfeited and canceled	<u>(828)</u>	14.24
Balance, December 31, 2005	25,211	14.59
Shares granted	27,322	17.66
Shares vested	(5,037)	14.59
Shares forfeited and canceled	<u>(2,405)</u>	16.80
Balance, December 31, 2006	45,091	17.23
Shares granted	33,524	21.44
Shares vested	(9,718)	17.97
Shares forfeited and canceled	<u>(4,602)</u>	16.53
Balance, December 31, 2007	<u>64,295</u>	<u>\$ 19.53</u>

(1) Shares and Weighted-Average Grant-Date Fair Value have been adjusted for the 10% common stock dividend, payable May 31, 2007 to shareholders of record on May 15, 2007.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**11. Earnings per Share**

The following table (dollars in thousands, except per share amounts) presents a reconciliation of the numerators and denominators used in the basic and diluted earnings per share computations for the years ended December 31 2007, 2006, and 2005. Weighted average shares outstanding have been adjusted for the 10% common stock dividend effective May 2007.

	Years Ended December 31,		
	2007	2006	2005
Numerator:			
Net income — basic and diluted	\$ 9,445	\$ 9,202	\$ 7,482
Denominator:			
Weighted average shares outstanding — basic	8,206,341	8,035,401	7,078,036
Dilutive effect of common stock options, restricted stock awards	<u>398,396</u>	<u>550,286</u>	<u>605,777</u>
Weighted average shares outstanding — diluted	<u>8,604,737</u>	<u>8,585,687</u>	<u>7,698,813</u>
Earnings per share — basic and diluted:			
Earnings per share — basic	\$ 1.15	\$ 1.15	\$ 1.06
Effect of dilutive common stock options	<u>(0.05)</u>	<u>(0.08)</u>	<u>(0.09)</u>
Earnings per share — diluted	<u>\$ 1.10</u>	<u>\$ 1.07</u>	<u>\$ 0.97</u>

At December 31, 2007, 2006 and 2005 there were no options outstanding that were not included in the dilutive calculations above. For the year ended December 31, 2007 and December 31, 2006, 32,000 and 92,745 shared performance stock awards have been included in the dilutive shares. These are related to the 2006-2008 Long Term Incentive Plan and the 2003-2005 Long Term Incentive Plan.

**12. Stockholders' Equity**

On May 31, 2007 and 2006, Intermountain distributed a Board of Directors approved 10% stock dividend to shareholders of record on May 15, 2007 and 2006, respectively.

Effective December 1, 2005, Intermountain completed a \$12.0 million common stock offering, issued 705,882 shares of common stock and added \$11.9 million to stockholders' equity.

On April 30, 2005, at the annual meeting of shareholders of Intermountain Community Bancorp, shareholders approved increasing the number of authorized common shares of stock from 7,084,000 to 24,000,000. This subsequently increased to 26,400,000 shares upon the declaration of the stock dividend, effective May 31, 2006, and to 29,040,000 upon the declaration of the stock dividend, effective May 31, 2007.

As of February 24, 2005, the Board of Directors approved a 3-for-2 stock split which was effective March 10, 2005. Intermountain issued 1,914,809 common shares, net of fractional shares.

**13. Regulatory Matters**

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2007 and 2006, approximately \$9.4 million and \$9.2 million of retained earnings were available for dividend declaration without prior regulatory approval.

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can initiate

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## INTERMOUNTAIN COMMUNITY BANCORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct, material effect on the Company's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. Management believes, as of December 31, 2007, that the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation ("FDIC") and the State of Idaho Department of Finance categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Company's or the Bank's category.

The following table sets forth the amounts and ratios regarding actual and minimum core Tier 1 risk-based and total risk-based capital requirements, together with the amounts and ratios required in order to meet the definition of a "well-capitalized" institution (in thousands). For all periods, both the Company and Panhandle State Bank met the requirements for a "well-capitalized" institution

	Actual		Capital Requirements		Well-Capitalized Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2007</b>						
Total capital (to risk-weighted assets):						
The Company	\$ 102,927	11.61%	\$ 70,900	8%	\$ 88,626	10%
Panhandle State Bank	102,898	11.61%	70,902	8%	88,627	10%
Tier I capital (to risk-weighted assets):						
The Company	91,840	10.36%	35,450	4%	53,175	6%
Panhandle State Bank	91,811	10.36%	35,451	4%	53,176	6%
Tier I capital (to average assets):						
The Company	91,840	8.90%	41,297	4%	51,621	5%
Panhandle State Bank	91,811	9.13%	40,225	4%	50,281	5%
<b>As of December 31, 2006</b>						
Total capital (to risk-weighted assets):						
The Company	\$ 90,937	11.62%	\$ 62,611	8%	\$ 78,264	10%
Panhandle State Bank	89,898	11.49%	62,611	8%	78,264	10%
Tier I capital (to risk-weighted assets):						
The Company	81,147	10.37%	31,306	4%	46,958	6%
Panhandle State Bank	80,108	10.24%	31,306	4%	46,958	6%
Tier I capital (to average assets):						
The Company	81,147	9.13%	35,540	4%	44,425	5%
Panhandle State Bank	80,108	9.18%	34,915	4%	43,643	5%

[Table of Contents](#)**INTERMOUNTAIN COMMUNITY BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****14. Commitments and Contingent Liabilities**

The Company is engaged in lending activities with borrowers in a variety of industries. A substantial portion of lending is concentrated in the regions in which the Company is located. Collateral on loans, loan commitments and standby letters of credit vary and may include accounts receivable, inventories, investment securities, real estate, equipment and vehicles. The amount and nature of collateral required is based on credit evaluations of the individual customers.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its banking customers. These financial instruments generally include commitments to extend credit, credit card arrangements, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, credit card arrangements, standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The contractual amounts of these financial instruments representing credit risk at December 31, 2007, were as follows (in thousands):

Commitments to extend credit	\$ 171,482
Credit card arrangements	\$ 10,272
Standby letters of credit	\$ 11,803

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit typically expire during the next 12 months.

Intermountain leases office space and equipment. As of December 31, 2007, future minimum payments under all of the Company's non-cancelable operating leases that have initial terms in excess of one year are due as follow (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 991
2009	839
2010	681
2011	686
2012	635
Thereafter	10,835
	<u>\$ 14,667</u>

Rent expense under these agreements for the years ended December 31, 2007, 2006, and 2005 totaled approximately \$1,195,000, \$801,000, and \$635,000, respectively. The operating lease obligations outlined above include lease obligations for the Canyon Rim and Gooding branches in the amount of \$112,500 per year and \$63,750 per year, respectively. Intermountain owned these buildings and executed a purchase and sale agreement to sell these buildings in December 2006. Intermountain also executed lease agreements in December 2006 which became effective in January 2007 to lease the same buildings. The sale-leaseback agreements do not require any

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future commitments, obligations, provisions or circumstances that would require or result in the Company's continuing involvement.

At December 31, 2007, Intermountain had an outstanding commitment to fund the completion of the Sandpoint Center totaling \$4.0 million. The Company expects to pay this amount within 2008 as the Sandpoint Center is completed.

**15. Employee Benefits Plans**

The Company sponsors a 401(k) profit sharing plan covering employees meeting minimum eligibility requirements. Employee contributions are voluntary, and the Company may make elective contributions to match up to 50% of the employee's contribution up to 8% of eligible compensation. The Company's contributions to the plan for the years ended December 31, 2007, 2006, and 2005 totaled approximately \$589,000, \$410,000, and \$310,000, respectively.

During 2003, the Company entered into a split dollar life insurance agreement on behalf of certain key executives. The policies were fully funded at purchase. The Company and the employee's estate are co-beneficiaries, with each receiving a certain amount upon death of the employee. Also, as a result of the Snake River Bancorp, Inc. acquisition in November 2004, the Company also assumed a split dollar life insurance agreement with Snake River directors and key executives.

The Company has various compensation plans for employees. Contributions to the plan are at the discretion of the Board of Directors. Deferred compensation expense for the plans described below for the years ended December 31, 2007, 2006, and 2005 was approximately \$3,251,000, \$3,961,000, and \$2,890,000, respectively. These various compensation plans are discussed in detail below.

- The Company has annual incentive plans for key employees. Amounts are paid annually within 75 days after each year end. The accrued balance at December 31, 2007 and 2006 for these plans was approximately \$2,558,000 and \$2,874,000, respectively.
- In 2003, the Company adopted a Supplemental Executive Retirement Plan ("SERP"). The SERP is a non-qualified unfunded plan designed to provide retirement benefits for two key employees of Intermountain. Participants will receive approximately \$258,620 in annual payments for 10 years beginning at normal retirement age. Retirement benefits vest after ten years of continued service and benefits are reduced for early retirement. The disability benefit is similar to the reduced benefit for early retirement without any vesting requirements. The plan provides for a change in control benefit if, within one year of a change in control, the participant's employment is terminated. Total amount accrued under the plan as of December 31, 2007 and 2006, was approximately \$254,000 and \$190,000, respectively.
- In April 2006, the Company implemented a long-term executive incentive plan, based on long-term corporate goals, to provide compensation in the form of stock grants to key executive officers. Participants are required to remain employed through the vesting period to receive any accrued benefits under the plan. For this stock-based compensation plan, the total adjustment to equity per SFAS 123 (R) at December 31, 2007 was \$597,000 and the compensation expense recorded for the year ended December 31, 2007 was \$66,000.
- The Company approved stock purchase agreements for certain key officers. Participants must remain employed to receive payments annually in December. The total amount paid under these agreements for 2007 and 2006 was approximately \$562,000 and \$500,000, respectively. Approximately \$2,057,000 remained available to be awarded at December 31, 2007.

[Table of Contents](#)**INTERMOUNTAIN COMMUNITY BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****16. 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. Currently, Intermountain's interest-earning assets, consisting primarily of loans receivable and investments, mature or reprice more rapidly, or on different terms, than do its interest-bearing liabilities, consisting primarily of deposits. The fact that assets mature or reprice more frequently on average than liabilities may be beneficial in times of rising interest rates; however, such an asset/liability structure may result in declining net interest income during periods of falling interest rates. The use of the Bank's pricing strategies, along with other asset-liability strategies, helps to mitigate the negative impact in a falling interest rate environment.

To minimize the impact of fluctuating interest rates on net interest income, Intermountain promotes a loan pricing policy consisting of both fixed and variable rate structures. Deposit pricing strategies are also employed to help distribute funding repricing between both short and long term sources. Additionally, Intermountain maintains an asset and liability management program intended to manage net interest income through interest rate cycles and to protect its NPV by controlling its exposure to changing interest rates.

Intermountain uses an internal simulation model designed to measure the sensitivity of net interest income, net income and NPV to changes in interest rates. This simulation model is designed to enable Intermountain to generate a forecast of net interest income, net income and NPV given various interest rate forecasts and alternative strategies. The model also is 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 and short-term interest rates have on the performance of Intermountain. Validation of this model is achieved through backtesting and the use of a third party model. Consultants from this vendor run an independent model which is then used to compare and validate internal results as well as providing critical information for asset-liability decision making.

Another monitoring tool used by Intermountain to assess interest rate risk is "gap analysis." The matching of repricing characteristics of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest sensitive" and by monitoring Intermountain's interest sensitivity "gap." Management is aware of the sources of interest rate risk and endeavors to actively monitor and manage its interest rate risk although there can be no assurance regarding the management of interest rate risk in future periods.

**17. Related-Party Transactions**

The Bank has executed certain loans and deposits with its directors, officers and their affiliates. Related party loans and deposits are transacted as part of the Company's normal course of business, and are not subject to preferential terms or conditions. The aggregate amount of loans outstanding to such related parties at December 31, 2007 and 2006 was approximately \$1,244,000 and \$638,000, respectively.

During the year, the balance of loans outstanding to directors and executive officers changed as follows (dollars in thousands):

	<u>2007</u>
<b>Balance, January 1,</b>	\$ 638
New	1,080
Repayment	(474)
Balance, December 31,	<u>\$ 1,244</u>

Directors' fees of approximately \$296,000, \$314,000, and \$310,000 were paid during the years ended December 31, 2007, 2006, and 2005, respectively.





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Two of the Company's Board of Directors are principals in law firms that provide legal services to Intermountain. During the years ended December 31, 2007, 2006 and 2005 the Company incurred legal fees of approximately \$9,000, \$11,000, and \$7,000, respectively, related to services provided by these firms.

Two directors of Intermountain who joined the boards of Intermountain and Panhandle State Bank in connection with the Snake River Bancorp, Inc. acquisition and two former employees of Magic Valley Bank, who are now employees of the Company, are all members of a partnership which owned the branch office building of Magic Valley Bank in Twin Falls, Idaho. The lease requires monthly rent of \$13,165 and expires on February 28, 2018. The Company has an option to renew the lease for three consecutive five-year terms at current market rates. In connection with the Snake River Bancorp acquisition, the lease was amended to grant the Company a two-year option to acquire the property for \$2.5 million. In December 2006, the Company sold the option to acquire the property to an unrelated party and executed a lease agreement to lease the building. The property was sold in January 2007 and the lease commenced in January 2007.

**18. Fair Value of Financial Instruments**

Fair value estimates are determined as of a specific date in time utilizing quoted market prices, where available, or various assumptions and estimates. As the assumptions underlying these estimates change, the fair value of the financial instruments will change. The use of assumptions and various valuation techniques will likely reduce the comparability of fair value disclosures between financial institutions. Accordingly, the aggregate fair value amounts presented do not represent and should not be construed to represent the full underlying value of Intermountain.

The methods and assumptions used to estimate the fair values of each class of financial instruments are as follows:

***Cash, Cash Equivalents, Federal Funds and Certificates of Deposit***

The carrying value of cash, cash equivalents, federal funds sold and certificates of deposit approximates fair value due to the relatively short-term nature of these instruments.

***Investments and BOLI***

The fair value of investments is based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The fair value of BOLI is equal to the cash surrender value of the life insurance policies.

***Loans Receivable and Loans Held For Sale***

The fair value of performing mortgage loans, commercial real estate construction, permanent financing, consumer and commercial loans is estimated by discounting the cash flows using interest rates that consider the interest rate risk inherent in the loans and current economic and lending conditions. Non-accrual loans are assumed to be carried at their current fair value and therefore are not adjusted.

***Deposits***

The fair values for deposits subject to immediate withdrawal such as interest and non-interest bearing checking, savings and money market deposit accounts, are discounted using market rates for replacement dollars and using industry statistics for decay/maturity dates. The carrying amounts for variable-rate certificates of deposit and other time deposits approximate their fair value at the reporting date. Fair values for fixed-rate certificates of deposit are estimated by discounting future cash flows using interest rates currently offered on time deposits with similar remaining maturities.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Borrowings***

The carrying amounts of short-term borrowings under repurchase agreements approximate their fair values due to the relatively short period of time between the origination of the instruments and their expected payment. The fair value of long-term FHLB Seattle advances and other long-term borrowings is estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements with similar remaining terms.

***Accrued Interest***

The carrying amounts of accrued interest payable and receivable approximate their fair value.

The estimated fair value of the financial instruments as of December 31, 2007 and 2006, are as follows (in thousands):

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash, cash equivalents, restricted cash and federal funds sold	\$ 38,092	\$ 38,092	\$ 60,650	\$ 60,650
Interest bearing certificates of deposit	—	—	—	—
Available-for-sale securities	158,791	158,791	118,490	118,490
Held-to-maturity securities	11,324	11,256	6,719	6,635
Loans held for sale	4,201	4,201	8,945	8,945
Loans receivable, net	756,549	768,427	664,403	664,850
Accrued interest receivable	8,207	8,207	7,329	7,329
BOLI	7,713	7,713	7,400	7,400
<b>Financial liabilities:</b>				
Deposit liabilities	757,838	721,974	693,686	635,064
Other borrowed funds	190,124	217,682	133,852	132,697
Accrued interest payable	3,027	3,027	1,909	1,909

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## INTERMOUNTAIN COMMUNITY BANCORP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**19. Quarterly Financial Data (Unaudited)**

The following tables present Intermountain's condensed operations on a quarterly basis for the years ended December 31, 2007 and 2006 (dollars in thousands, except per share amounts):

	Year Ended December 31, 2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	\$ 17,056	\$ 17,952	\$ 19,084	\$ 18,766
Interest expense	(6,208)	(6,482)	(6,721)	(6,926)
Provision for losses on loans	(834)	(1,172)	(1,221)	(669)
Net interest income after provision for losses on loans	10,014	10,298	11,142	11,171
Other income	3,041	3,197	3,584	3,377
Operating expenses	(9,677)	(9,957)	(10,718)	(10,574)
Income before income taxes	3,378	3,538	4,008	3,974
Income tax provision	(1,285)	(1,354)	(1,590)	(1,224)
Net income	\$ 2,093	\$ 2,184	\$ 2,418	\$ 2,750
Earnings per share — basic(1)	\$ 0.26	\$ 0.27	\$ 0.29	\$ 0.33
Earnings per share — diluted(1)	\$ 0.24	\$ 0.25	\$ 0.28	\$ 0.33
Weighted average shares outstanding — basic(1)	8,161,310	8,194,522	8,223,257	8,245,133
Weighted average shares outstanding — diluted(1)	8,615,307	8,605,032	8,592,975	8,582,943
	Year Ended December 31, 2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	\$ 12,628	\$ 13,913	\$ 16,030	\$ 17,009
Interest expense	(3,337)	(3,670)	(4,924)	(5,602)
Provision for losses on loans	96	(762)	(910)	(572)
Net interest income after provision for losses on loans	9,387	9,481	10,196	10,835
Other income	2,440	2,364	2,973	3,061
Operating expenses	(7,704)	(8,889)	(9,221)	(10,146)
Income before income taxes	4,123	2,956	3,948	3,750
Income tax provision	(1,561)	(1,117)	(1,423)	(1,474)
Net income	\$ 2,562	\$ 1,839	\$ 2,525	\$ 2,276
Earnings per share — basic(1)	\$ 0.33	\$ 0.23	\$ 0.31	\$ 0.28
Earnings per share — diluted(1)	\$ 0.30	\$ 0.21	\$ 0.29	\$ 0.27
Weighted average shares outstanding — basic(1)	7,967,573	8,023,276	8,054,527	8,094,757
Weighted average shares outstanding — diluted(1)	8,455,114	8,448,791	8,558,530	8,641,019

(1) Earnings per share and weighted average shares outstanding have been adjusted to reflect the 10% common stock dividend effective May 31, 2007.

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**20. Parent Company-Only Financial Information**

Intermountain Community Bancorp became the holding company for Panhandle State Bank on January 27, 1998. The following Intermountain Community Bancorp parent company-only financial information should be read in conjunction with the other notes to the consolidated financial statements. The accounting policies for the parent company-only financial statements are the same as those used in the presentation of the consolidated financial statements other than the parent company-only financial statements account for the parent company's investments in its subsidiaries under the equity method (in thousands).

**Condensed Balance Sheets**

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
<b>Assets:</b>		
Cash	\$ 357	\$ 236
Construction in progress	18,413	5,695
Land	2,099	1,802
Investment in subsidiaries	106,617	93,567
Prepaid expenses and other assets	190	197
Total assets	<u>\$ 127,676</u>	<u>\$ 101,497</u>
<b>Liabilities:</b>		
Other borrowings	\$ 36,998	\$ 22,602
Other liabilities	559	815
Total liabilities	<u>\$ 37,557</u>	<u>\$ 23,417</u>
<b>Stockholders' Equity</b>	<u>90,119</u>	<u>78,080</u>
Total liabilities and stockholders' equity	<u>\$ 127,676</u>	<u>\$ 101,497</u>

**Condensed Statements of Income**

	<u>Years Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest income	\$ —	\$ —	\$ —
Interest expense	(1,587)	(1,326)	(1,042)
Net interest income (expense)	(1,587)	(1,326)	(1,042)
Equity in net earnings of subsidiary	11,545	11,058	8,931
Other income	5	—	—
Operating expenses	(518)	(530)	(407)
Net income	<u>\$ 9,445</u>	<u>\$ 9,202</u>	<u>\$ 7,482</u>

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**INTERMOUNTAIN COMMUNITY BANCORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Condensed Statements of Cash Flows**

Cash flows from operating activities:			
Net income	\$ 9,445	\$ 9,202	\$ 7,482
Equity income from subsidiary	(11,545)	(11,058)	(8,931)
Other	170	793	338
Net cash used in operating activities	<u>(1,930)</u>	<u>(1,063)</u>	<u>(1,111)</u>
Cash flows from investing activities:			
Investments in and advances to subsidiaries	—	—	(14,712)
Purchase of office properties	(13,015)	(6,367)	—
Acquisition of Snake River Bancorp, Inc.	—	—	—
Net decrease in notes and contracts receivable	—	—	—
Net cash provided by (used in) investing activities	<u>(13,015)</u>	<u>(6,367)</u>	<u>(14,712)</u>
Cash flows from financing activities:			
Payments to repurchase stock	—	—	—
Proceeds from other borrowings	14,428	5,060	—
Proceeds from common stock offering, net of expenses	—	—	11,861
Proceeds from exercise of stock options	679	1,396	901
Repayment of borrowings	(32)	(115)	—
Redemption of fractional shares of common stock	(9)	(9)	(1)
Net cash provided by financing activities	<u>15,066</u>	<u>6,332</u>	<u>12,761</u>
Net change in cash and cash equivalents	121	(1,098)	(3,062)
Cash and cash equivalents, beginning of year	236	1,334	4,396
Cash and cash equivalents, end of year	<u>\$ 357</u>	<u>\$ 236</u>	<u>\$ 1,334</u>

**21. Business Combinations**

In September 2006, the Company purchased a small investment company. The company, Premier Financial Services, had a previous business relationship with this company whereby the investment company employees provided investment advisory services to the Bank's customers. The Company issued 11,162 shares of common stock with a market value of \$255,000, purchased \$8,300 in fixed assets, paid a non-compete agreement and recorded \$263,000 in goodwill. The employees of the acquired company became employees of the Bank and continue to provide investment advisory services to the Bank's customers through a division of the Bank called Intermountain Community Investment Services.

**22. Subsequent Events**

None.

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**Section 2: EX-10.3 (EXHIBIT 10.3)**

*Exhibit 10.3*  
*Employee Form of Agreement*

**INTERMOUNTAIN COMMUNITY BANCORP  
RESTRICTED STOCK AWARD AGREEMENT**

THIS RESTRICTED STOCK AWARD AGREEMENT (“Agreement”) is entered into by and between Intermountain Community Bancorp (“Bancorp”) and the Grantee, named below, effective \_\_\_\_\_.

Grantee:

Shares:

Purchase Price: \$0.00 (not applicable)

Date of Grant:

This Agreement is subject to the terms and conditions of Bancorp’s Second Amended and Restated Employee Stock Option and Restricted Stock Plan (the “Plan”). Such terms and conditions are incorporated herein by this reference. In the event of a conflict between the terms and conditions of this Agreement and the terms and conditions of the Plan, the terms and condition of the Plan shall govern.

**1. Award of Shares**

- a. General. In connection with a Restricted Stock Award (as defined in the Plan), Bancorp grants to the Grantee the number of shares of Bancorp’s Common Stock identified above (the “Shares”).
- b. Conditions to Award of Shares. As a condition precedent to Bancorp’s obligation to award shares under paragraph 1.a, the Grantee shall deliver to Bancorp, within thirty (30) days following the Date of Grant, (i) an original of this Agreement duly executed by the Grantee, and (ii) the aggregate Purchase Price, if any, in cash or cash equivalent. In the event the Grantee fails to make such delivery(ies), then the rights and obligations of Bancorp and the Grantee hereunder shall terminate without the need for further action by any party, and Bancorp and the Grantee shall have no further rights or obligations with respect to the Restricted Stock Award described in paragraph 1.a.
- c. Issuance of Shares and Delivery of Certificates. Concurrently with the payment by the Grantee of the aggregate Purchase Price, if any, as described in paragraph 1.b, Bancorp shall issue the Shares to the Grantee. As provided in paragraph 3, all certificates representing the Shares so issued shall be held in escrow by the Secretary of Bancorp.

- d. Cash Dividends. Any cash dividends with respect to Unvested Shares (defined below) will be held by Bancorp (unsegregated and as part of its general assets) until the Unvested Shares have vested, and will be paid over to the Grantee as soon as the vesting period is completed with respect to the Shares. Prior to the date of vesting, cash dividends related to Unvested Shares will be held in escrow by Bancorp and will be subject to forfeiture, as described in paragraph 2.a., with respect to the Unvested Shares.
- e. Stock Dividends or Splits. Whenever Unvested Shares become vested pursuant to paragraph 1.g and are released to the Grantee, a number of Shares equal to the amount of shares issued in the event of stock dividends and splits between the Grant Date and the date of vesting shall also be issued to the Grantee. Prior to the date of vesting, shares related to stock dividends or splits will be held in escrow by Bancorp and will be subject to forfeiture or Bancorp's Repurchase Right (defined below), as the case may be, with respect to the Unvested Shares.
- f. Rights Upon Issuance of Shares. Until such time as Bancorp exercises its Repurchase Right with respect to Unvested Shares or such Shares are forfeited, as the case may be, and subject to any restrictions contained in the Plan or this Agreement, the Grantee (or his or her successor in interest) shall have the voting rights of a stockholder with respect to the Shares, including Unvested Shares.
- g. Vesting Schedule. The Shares shall vest as provided in the vesting schedule set forth below. In no event shall any portion of the Shares vest after the Grantee first ceases to maintain Continuous Status as an Employee (as defined in the Plan), unless the vesting of such shares is accelerated as described in paragraph 7.a. That portion of the Shares that is not vested at the time that the Grantee first ceases to maintain Continuous Status as an Employee (the "Unvested Shares") shall be subject to forfeiture or the Repurchase Right of Bancorp, as the case may be, as described in paragraph 2.

<u>Number of Complete Years of Continuous Status as an Employee From the Date of Grant</u>	<u>Percent of the Original Number of Shares that Vest</u>
1	20%
2	20%
3	20%
4	20%
5	20%

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\* The number of Shares that vest each year, resulting from multiplying the original number of Shares by the percentage shown, shall be rounded up to the nearest whole number, but the total number of Shares that vest over the entire vesting period shall not exceed, in the aggregate, the total number of Shares identified in this Agreement above.

## **2. Forfeiture and Repurchase Right**

- a. **Forfeiture.** With respect to any Shares for which the Purchase Price is not applicable (i.e. the Purchase Price is \$0.00), any Unvested Shares (and related cash dividends and Shares related to stock dividends or stock splits) will be forfeited by the Grantee on the date on which Grantee, for any reason, first ceases to maintain Continuous Status as an Employee, unless the vesting of such shares is accelerated as described in paragraph 7.a.
- b. **Repurchase Right.** With respect to any Shares for which a Purchase Price is specified, and notwithstanding any provisions contained in this Agreement to the contrary, Bancorp shall have the right, but not the obligation, to repurchase all or any portion of the Unvested Shares (the "Repurchase Right") at the Purchase Price originally paid by the Grantee for such Unvested Shares. Such Repurchase Right shall be exercisable at any time during the ninety (90) day period that immediately follows the date on which Grantee, for any reason, first ceases to maintain Continuous Status as an Employee, unless the vesting of such shares is accelerated as described in paragraph 7.a.
- c. **Exercise of Repurchase Right.** If Bancorp elects to exercise the Repurchase Right for all or any portion of the Unvested Shares, it shall do so by delivering a written notice of exercise to the Grantee prior to the expiration of the ninety (90) day period described in paragraph 2.b. Such notice shall specify the number of Unvested Shares that Bancorp will repurchase and the date on which the repurchase is to be effected, which date shall be not more than thirty (30) days after the date of the notice. To the extent that one or more certificates representing Unvested Shares may have been previously delivered out of escrow to the Grantee, the Grantee shall, prior to the close of business on the date



specified for the repurchase, deliver to the Secretary of Bancorp the certificates representing the Unvested Shares to be repurchased, each certificate to be properly endorsed for transfer. Bancorp shall, concurrently with the receipt of such stock certificates (either from escrow or from the Grantee as herein provided), pay to the Grantee, in cash or cash equivalents, an amount equal to the Purchase Price originally paid by the Grantee for the Unvested Shares that Bancorp elects to repurchase. If Bancorp does not elect to exercise the Purchase Right for all or any portion of the Unvested Shares, in the manner and within the time period described above, then Bancorp shall cease to have any further Repurchase Right with respect to the Unvested Shares that it does not elect to repurchase.

- d. Additional Shares or Substitute Securities. In the event of a stock dividend, stock split, recapitalization or other change affecting Bancorp's outstanding Common Stock as a class (effected, in each case, without receipt by Bancorp of consideration), then any new, substituted or additional securities or other property (including money paid, other than as a regular cash distribution) that is by reason of such transaction distributed with respect to the Shares shall be immediately subject to forfeiture or the Repurchase Right, as the case may be, but only to the extent that such Shares are at the time Unvested Shares. Appropriate adjustments to reflect the distribution of such securities or property shall be made to the number of Shares at the time subject to forfeiture or the Repurchase Right hereunder, as the case may be, and to the price per share to be paid upon the exercise of the Repurchase Right, in order to reflect the effect of any such transaction upon Bancorp's capital structure; provided, however, that the aggregate Purchase Price shall remain the same.

### 3. Escrow

- a. Deposit. The Grantee hereby authorizes Bancorp to hold in escrow, in accordance with this paragraph 3, all certificates representing Unvested Shares. In the event any such certificates shall come into the possession of the Grantee, the Grantee shall immediately deliver the same to the Secretary of Bancorp for such purposes. The Grantee further agrees to deliver, at the time any Unvested Shares are issued to him, a duly executed Assignment Separate From Certificate, in the form attached hereto as Exhibit A, to accompany any certificates representing Unvested Shares. The certificates representing Unvested Shares shall remain in escrow until such time or times as they are released or surrendered in accordance with paragraph 3.b.
- b. Release/Surrender. As to Shares in which the Grantee acquires a vested interest (as described in paragraph 1.g), the certificates representing such Shares shall be released from escrow and delivered to the Grantee as soon as practicable after the Grantee acquires such vested interest. As to Shares that are Unvested Shares at the time that the Grantee first ceases to maintain Continuous Status as an Employee, and which are forfeited or for which Bancorp elects to exercise the

Repurchase Right with respect to all or any portion of such Unvested Shares, as the case may be and as provided in paragraph 2, certificates representing the Unvested Shares that are forfeited or that Bancorp elects to repurchase shall be delivered to Bancorp, concurrently with the payment to the Grantee, in cash or cash equivalent, of an amount equal to the aggregate Purchase Price, if any, for such Unvested Shares, and the Grantee shall cease to have any further rights or claims with respect to such Unvested Shares. As to Shares that are Unvested Shares at the time that the Grantee first ceases to maintain Continuous Status as an Employee and for which a Purchase Price is applicable, if Bancorp does not elect to exercise the Repurchase Right, as provided in paragraph 2, or elects to exercise the Repurchase Right with respect to less than all of the Unvested Shares, certificates for Unvested Shares that Bancorp does not elect to repurchase shall be delivered to the Grantee, and Bancorp shall cease to have any further Repurchase Right with respect to such Unvested Shares.

- c. **Prohibition on Transfer.** The Grantee shall not sell, transfer, pledge, hypothecate or otherwise dispose of Unvested Shares, and any such sale, transfer or pledge in violation of this Agreement shall be void. Bancorp shall not be required (i) to transfer on its books any Shares that shall have been sold or transferred in violation of this Agreement, or (ii) to accord any rights (including, without limitation, the right to vote, to receive dividends, or to receive the proceeds of liquidation) to any transferee to whom such Shares shall have been so transferred.
4. **Legends.** In order to reflect restrictions on disposition of the Unvested Shares, each certificate representing Shares may be endorsed with a legend substantially as follows, in addition to any other legends that Bancorp deems to be necessary or advisable:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE RESTRICTIONS SET FORTH IN A RESTRICTED STOCK AWARD AGREEMENT, \_\_\_\_, A COPY OF WHICH IS ON FILE AT THE OFFICE OF BANCORP AND THE PROVISIONS OF WHICH ARE INCORPORATED HEREIN BY REFERENCE.

5. **Section 83(b) Election.** The Grantee understands and acknowledges that:
- a. Under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), the excess of the fair market value of the Shares at the time that any restrictions on the Shares lapse over the Purchase Price for the Shares is taxed, as ordinary income, in the taxable year in which such restrictions lapse. In this context, "restriction" means the mandatory forfeiture of the Unvested Shares under circumstances or the right of Bancorp to buy back the Shares pursuant to the Repurchase Right.
  - b. If Section 83 of the Code is applicable, the Grantee may file a special election ("Section 83(b) Election") so that the excess of the fair market value of the Shares

at the time the Shares are transferred to him/her (rather than the time that any restrictions on the Shares lapse) over the Purchase Price for the Shares is taxed, as ordinary income, in the taxable year in which the Shares are transferred to him/her (rather than the taxable year in which any restrictions lapse). Even if the fair market value of the Shares equals the amount paid for the Shares, the election must be made to avoid adverse tax consequences in the future.

- c. The Participant will not be entitled to a deduction for any ordinary income previously recognized as a result of making a Section 83(b) Election, if the Unvested Shares are subsequently forfeited to Bancorp.
  - d. If the value of the Unvested Shares declines after a Section 83(b) Election, such election may cause the Grantee to recognize more compensation income than he/she would have otherwise recognized.
  - e. There may be tax reporting, payroll tax and withholding tax requirements relating to the acquisition, and/or the subsequent vesting, of Shares.
  - f. THE FORM FOR MAKING A SECTION 83(b) ELECTION IS ATTACHED HERETO AS EXHIBIT B. IF THE GRANTEE CHOOSES TO MAKE SUCH AN ELECTION, THIS FORM MUST BE FILED NO LATER THAN THIRTY (30) DAYS AFTER THE SHARES ARE TRANSFERRED TO HIM. FAILURE TO MAKE A TIMELY SECTION 83(b) ELECTION MAY RESULT IN THE RECOGNITION OF ORDINARY INCOME BY THE GRANTEE AS THE REPURCHASE RIGHT LAPSES. IT IS THE GRANTEE'S SOLE RESPONSIBILITY, AND NOT BANCORP'S, TO MAKE A TIMELY SECTION 83(b) ELECTION.
  - g. THE GRANTEE IS ADVISED TO SEEK INDEPENDENT ADVICE REGARDING THE APPLICABLE PROVISIONS OF ANY TAX LAWS RELATING TO HIS ACQUISITION OF ANY SHARES.
- 6. Securities Law Compliance.** Notwithstanding any contrary provisions of this Agreement, the Shares may not be sold, assigned or transferred, unless they are registered under applicable Federal and state securities laws and regulations or, if the Shares are not then so registered, an exemption from such registration is available.
- 7. Miscellaneous**
- a. Corporate Sale Transactions. In the event of the merger or reorganization of Bancorp with or into any other corporation, the sale of substantially all of the assets of Bancorp, or a dissolution or liquidation of Bancorp (collectively, "Sale Transaction"), (1) the vesting schedule for otherwise Unvested Shares shall be accelerated so that such Shares will be fully vested; and (2) the forfeiture and Repurchase Right provisions set forth in paragraph 2 shall lapse and be unenforceable as to such previously Unvested Shares.

- b. Successors in Interest. This Agreement and all of its terms, conditions and covenants are intended to be fully effective and binding, to the extent permitted by law, on the heirs, executors, administrators, successors and permitted assigns of the parties hereto.
- c. Spousal Consent. If the Grantee is married, the Grantee shall obtain the signature of the Grantee's spouse as set forth on the Consent of Spouse below. The Grantee's failure to obtain such consent shall constitute a representation by the Grantee, on which Bancorp shall rely, that the Grantee is unmarried and that the Grantee has sole authority with respect to the Grantee's actions regarding the Shares.
- d. No Right to Employment. Nothing in this Agreement shall affect in any manner whatsoever the right or power of Bancorp to terminate the Grantee's employment with Bancorp, or the Grantee's ability to quit Bancorp's employment, with or without cause, at any time.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first indicated above.

GRANTEE: INTERMOUNTAIN COMMUNITY BANCORP,  
an Idaho corporation

By \_\_\_\_\_ By: \_\_\_\_\_

Name: \_\_\_\_\_ Title: President & CEO

Address: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Social Security No. \_\_\_\_\_

Grantee hereby acknowledges that he or she has received a copy of the Plan.

By: \_\_\_\_\_

Name:

**Spousal Acknowledgement**

The undersigned spouse of Grantee has read and hereby approves the foregoing Agreement. In partial consideration of Bancorp granting to Grantee the right to acquire the Shares in accordance with the terms of this Agreement, the undersigned hereby agrees to be irrevocably bound by all the terms of such Agreement, including, without limitation, the right of the Bancorp to repurchase any Unvested Shares of Grantee pursuant to this Agreement.

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Social Security No. \_\_\_\_\_

EXHIBIT A

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto, \_\_\_\_\_,  
\_\_\_\_\_ ( \_\_\_\_\_ ) shares of the Common Stock of Intermountain Community Bancorp, an Idaho  
corporation, standing in the undersigned's name on the books of said corporation represented by Certificate No. \_\_\_ herewith, and  
does hereby irrevocably constitute and appoint \_\_\_\_\_  
as attorney-in-fact, to transfer the said stock on the books of the said corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_

Print Name: \_\_\_\_\_



## EXHIBIT B

## SECTION 83(b) TAX ELECTION

The undersigned hereby elects pursuant to Internal Revenue Code § 83(b) with respect to the property described in paragraph 2 below and supplies the following information in accordance with the regulations promulgated thereunder:

1. *The name, address and taxpayer identification number of the undersigned are:*

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Taxpayer I.D. No. \_\_\_\_\_

2. *Description of property with respect to which the election is being made:*

\_\_\_\_\_ shares of Common Stock, no par value, in Intermountain Community Bancorp (“Bancorp”).

3. *Date on which property is transferred and taxable year for which the election is made:*

The transfer of the property described in paragraph 2 occurred on \_\_\_\_\_, when the restrictions described in paragraph 4 were imposed.

The taxable year for which this election is made is calendar year \_\_\_\_\_.

4. *The nature of the restriction(s) to which the property is subject is:*

The subject shares are subject to a Restricted Stock Award Agreement between the shareholder and Bancorp dated

\_\_\_\_\_, \_\_\_\_\_  
 (the “Award Agreement”) pursuant to which the shares are subject to forfeiture or a right of purchase by Bancorp in the event that the shareholder’s service to Bancorp is voluntarily terminated or terminated for cause, as defined in the Award Agreement. If the right of repurchase is exercised, the purchase price is the price originally paid for the share by taxpayer. The right of repurchase lapses as to \_\_\_\_\_  
 of the original number of shares acquired by taxpayer as the shareholder completes each year of continuous service with Bancorp.

The property is non-transferable in the taxpayer’s hands, by virtue of language to that effect stamped on the stock certificate.

5. *Fair market value:*

On the date the restrictions described in paragraph 4 were imposed, the shares described in paragraph 2 had a fair market value of \_\_\_\_\_.

6. *Amount paid for property:*

None, the property had a purchase price of —0—.

7. *Furnishing statement to employer:*

A copy of this statement has been furnished to Bancorp, as required by Reg. § 1.83(b)-2(d).

Dated: \_\_\_\_\_.

\_\_\_\_\_  
Print Name: \_\_\_\_\_

THIS ELECTION MUST BE FILED WITH THE INTERNAL REVENUE SERVICE CENTER WITH WHICH TAXPAYER FILES HIS OR HER FEDERAL INCOME TAX RETURNS. THE ELECTION MUST BE FILE WITHIN THIRTY (30) DAYS AFTER THE TRANSFER OF SHARES TO HIM OR HER. THIS FILING SHOULD BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED. PURCHASER MUST RETAIN TWO (2) COPIES OF THE COMPLETED FORM FOR FILING WITH HIS OR HER FEDERAL AND STATE TAX RETURNS FOR THE CURRENT TAXABLE YEAR AND AN ADDITIONAL COPY FOR HIS OR HER RECORDS.

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### **Section 3: EX-10.6 (EXHIBIT 10.6)**



*Exhibit 10.6*  
*Director Form of Agreement*

**INTERMOUNTAIN COMMUNITY BANCORP  
RESTRICTED STOCK AWARD AGREEMENT**

THIS RESTRICTED STOCK AWARD AGREEMENT (“Agreement”) is entered into by and between Intermountain Community Bancorp (“Bancorp”) and the Grantee, named below, effective \_\_\_\_\_.

Grantee:

Shares:

Purchase Price: \$0.00 (not applicable)

Date of Grant:

This Agreement is subject to the terms and conditions of Bancorp’s Amended and Restated Director Stock Plan (the “Plan”). Such terms and conditions are incorporated herein by this reference. In the event of a conflict between the terms and conditions of this Agreement and the terms and conditions of the Plan, the terms and condition of the Plan shall govern.

**1. Award of Shares**

- a. General. In connection with a Restricted Stock Award (as defined in the Plan), Bancorp grants to the Grantee the number of shares of Bancorp’s Common Stock identified above (the “Shares”).
- b. Conditions to Award of Shares. As a condition precedent to Bancorp’s obligation to award shares under paragraph 1.a, the Grantee shall deliver to Bancorp, within thirty (30) days following the Date of Grant, (i) an original of this Agreement duly executed by the Grantee, and (ii) the aggregate Purchase Price, if any, in cash or cash equivalent. In the event the Grantee fails to make such delivery(ies), then the rights and obligations of Bancorp and the Grantee hereunder shall terminate without the need for further action by any party, and Bancorp and the Grantee shall have no further rights or obligations with respect to the Restricted Stock Award described in paragraph 1.a.
- c. Issuance of Shares and Delivery of Certificates. Concurrently with the payment by the Grantee of the aggregate Purchase Price, if any, as described in paragraph 1.b, Bancorp shall issue the Shares to the Grantee. As provided in paragraph 3, all certificates representing the Shares so issued shall be held in escrow by the Secretary of Bancorp.
- d. Cash Dividends. Any cash dividends with respect to Unvested Shares (defined below) will be held by Bancorp (unsegregated and as part of its general assets)

until the Unvested Shares have vested, and will be paid over to the Grantee as soon as the vesting period is completed with respect to the Shares. Prior to the date of vesting, cash dividends related to Unvested Shares will be held in escrow by Bancorp and will be subject to forfeiture, as described in paragraph 2.a, with respect to the Unvested Shares.

- e. Stock Dividends or Splits. Whenever Unvested Shares become vested pursuant to paragraph 1.g and are released to the Grantee, a number of Shares equal to the amount of shares issued in the event of stock dividends and splits between the Grant Date and the date of vesting shall also be issued to the Grantee. Prior to the date of vesting, shares related to stock dividends or splits will be held in escrow by Bancorp and will be subject to forfeiture or Bancorp's Repurchase Right (defined below), as the case may be, with respect to the Unvested Shares.
- f. Rights Upon Issuance of Shares. Until such time as Bancorp exercises its Repurchase Right with respect to Unvested Shares or such Shares are forfeited, as the case may be, and subject to any restrictions contained in the Plan or this Agreement, the Grantee (or his or her successor in interest) shall have the voting rights of a stockholder with respect to the Shares, including Unvested Shares.
- g. Vesting Schedule. The Shares shall vest as provided in the vesting schedule set forth below. In no event shall any portion of the Shares vest after the Grantee first ceases to maintain Continuous Status as a Director (as defined in the Plan), unless the vesting of such shares is accelerated as described in paragraph 7.a. That portion of the Shares that is not vested at the time that the Grantee first ceases to maintain Continuous Status as a Director (the "Unvested Shares") shall be subject to forfeiture or the Repurchase Right of Bancorp, as the case may be, as described in paragraph 2.

<u>Number of Complete Years of Continuous Status as a Director From the Date of Grant</u>	<u>Percent of the Original Number of Shares that Vest *</u>
1	20%
2	20%
3	20%
4	20%
5	20%

\* The number of Shares that vest each year, resulting from multiplying the original number of Shares by the percentage shown, shall be rounded up to the nearest whole number, but the total number of Shares that vest over the entire vesting period shall not exceed, in the aggregate, the total number of Shares identified in this Agreement above.

## 2. Forfeiture and Repurchase Right

- a. Forfeiture. With respect to any Shares for which the Purchase Price is not applicable (i.e. the Purchase Price is \$0.00), any Unvested Shares (and related cash dividends and Shares related to stock dividends or stock splits) will be forfeited by the Grantee on the date on which Grantee, for any reason, first ceases to maintain Continuous Status as a Director, unless the vesting of such shares is accelerated as described in paragraph 7.a.
- b. Repurchase Right. With respect to any Shares for which a Purchase Price is specified, and notwithstanding any provisions contained in this Agreement to the contrary, Bancorp shall have the right, but not the obligation, to repurchase all or any portion of the Unvested Shares (the "Repurchase Right") at the Purchase Price originally paid by the Grantee for such Unvested Shares. Such Repurchase Right shall be exercisable at any time during the ninety (90) day period that immediately follows the date on which Grantee, for any reason, first ceases to maintain Continuous Status as a Director, unless the vesting of such shares is accelerated as described in paragraph 7.a.
- c. Exercise of Repurchase Right. If Bancorp elects to exercise the Repurchase Right for all or any portion of the Unvested Shares, it shall do so by delivering a written notice of exercise to the Grantee prior to the expiration of the ninety (90) day period described in paragraph 2.b. Such notice shall specify the number of Unvested Shares that Bancorp will repurchase and the date on which the repurchase is to be effected, which date shall be not more than thirty (30) days after the date of the notice. To the extent that one or more certificates representing Unvested Shares may have been previously delivered out of escrow to the Grantee, the Grantee shall, prior to the close of business on the date specified for the repurchase, deliver to the Secretary of Bancorp the certificates representing the Unvested Shares to be repurchased, each certificate to be properly endorsed for transfer. Bancorp shall, concurrently with the receipt of such stock certificates (either from escrow or from the Grantee as herein provided), pay to the Grantee, in cash or cash equivalents, an amount equal to the Purchase Price originally paid by the Grantee for the Unvested Shares that Bancorp elects to repurchase. If Bancorp does not elect to exercise the Purchase Right for all or any portion of the Unvested Shares, in the manner and within the time period described above, then Bancorp shall cease to have any further Repurchase Right with respect to the Unvested Shares that it does not elect to repurchase.
- d. Additional Shares or Substitute Securities. In the event of a stock dividend, stock split, recapitalization or other change affecting Bancorp's outstanding Common Stock as a class (effected, in each case, without receipt by Bancorp of consideration), then any new, substituted or additional securities or other property (including money paid, other than as a regular cash distribution) that is by reason of such transaction distributed with respect to the Shares shall be immediately

subject to forfeiture or the Repurchase Right, as the case may be, but only to the extent that such Shares are at the time Unvested Shares. Appropriate adjustments to reflect the distribution of such securities or property shall be made to the number of Shares at the time subject to forfeiture or the Repurchase Right hereunder, as the case may be, and to the price per share to be paid upon the exercise of the Repurchase Right, in order to reflect the effect of any such transaction upon Bancorp's capital structure; provided, however, that the aggregate Purchase Price shall remain the same.

### 3. Escrow

- a. Deposit. The Grantee hereby authorizes Bancorp to hold in escrow, in accordance with this paragraph 3, all certificates representing Unvested Shares. In the event any such certificates shall come into the possession of the Grantee, the Grantee shall immediately deliver the same to the Secretary of Bancorp for such purposes. The Grantee further agrees to deliver, at the time any Unvested Shares are issued to him, a duly executed Assignment Separate From Certificate, in the form attached hereto as Exhibit A, to accompany any certificates representing Unvested Shares. The certificates representing Unvested Shares shall remain in escrow until such time or times as they are released or surrendered in accordance with paragraph 3.b.
- b. Release/Surrender. As to Shares in which the Grantee acquires a vested interest (as described in paragraph 1.g), the certificates representing such Shares shall be released from escrow and delivered to the Grantee as soon as practicable after the Grantee acquires such vested interest. As to Shares that are Unvested Shares at the time that the Grantee first ceases to maintain Continuous Status as a Director, and which are forfeited or for which Bancorp elects to exercise the Repurchase Right with respect to all or any portion of such Unvested Shares, as the case may be and as provided in paragraph 2, certificates representing the Unvested Shares that are forfeited or that Bancorp elects to repurchase shall be delivered to Bancorp, concurrently with the payment to the Grantee, in cash or cash equivalent, of an amount equal to the aggregate Purchase Price, if any, for such Unvested Shares, and the Grantee shall cease to have any further rights or claims with respect to such Unvested Shares. As to Shares that are Unvested Shares at the time that the Grantee first ceases to maintain Continuous Status as a Director and for which a Purchase Price is applicable, if Bancorp does not elect to exercise the Repurchase Right, as provided in paragraph 2, or elects to exercise the Repurchase Right with respect to less than all of the Unvested Shares, certificates for Unvested Shares that Bancorp does not elect to repurchase shall be delivered to the Grantee, and Bancorp shall cease to have any further Repurchase Right with respect to such Unvested Shares.
- c. Prohibition on Transfer. The Grantee shall not sell, transfer, pledge, hypothecate or otherwise dispose of Unvested Shares, and any such sale, transfer or pledge in violation of this Agreement shall be void. Bancorp shall not be required (i) to

transfer on its books any Shares that shall have been sold or transferred in violation of this Agreement, or (ii) to accord any rights (including, without limitation, the right to vote, to receive dividends, or to receive the proceeds of liquidation) to any transferee to whom such Shares shall have been so transferred.

4. **Legends.** In order to reflect restrictions on disposition of the Unvested Shares, each certificate representing Shares may be endorsed with a legend substantially as follows, in addition to any other legends that Bancorp deems to be necessary or advisable:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE RESTRICTIONS SET FORTH IN A RESTRICTED STOCK AWARD AGREEMENT, DATED \_\_\_\_\_, A COPY OF WHICH IS ON FILE AT THE OFFICE OF BANCORP AND THE PROVISIONS OF WHICH ARE INCORPORATED HEREIN BY REFERENCE.

5. **Section 83(b) Election.** The Grantee understands and acknowledges that:

- a. Under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), the excess of the fair market value of the Shares at the time that any restrictions on the Shares lapse over the Purchase Price for the Shares is taxed, as ordinary income, in the taxable year in which such restrictions lapse. In this context, "restriction" means the mandatory forfeiture of the Unvested Shares under circumstances or the right of Bancorp to buy back the Shares pursuant to the Repurchase Right.
- b. If Section 83 of the Code is applicable, the Grantee may file a special election ("Section 83(b) Election") so that the excess of the fair market value of the Shares at the time the Shares are transferred to him/her (rather than the time that any restrictions on the Shares lapse) over the Purchase Price for the Shares is taxed, as ordinary income, in the taxable year in which the Shares are transferred to him/her (rather than the taxable year in which any restrictions lapse). Even if the fair market value of the Shares equals the amount paid for the Shares, the election must be made to avoid adverse tax consequences in the future.
- c. The Participant will not be entitled to a deduction for any ordinary income previously recognized as a result of making a Section 83(b) Election, if the Unvested Shares are subsequently forfeited to Bancorp.
- d. If the value of the Unvested Shares declines after a Section 83(b) Election, such election may cause the Grantee to recognize more compensation income than he/she would have otherwise recognized.
- e. There may be tax reporting, payroll tax and withholding tax requirements relating to the acquisition, and/or the subsequent vesting, of Shares.

- f. THE FORM FOR MAKING A SECTION 83(b) ELECTION IS ATTACHED HERETO AS EXHIBIT B. IF THE GRANTEE CHOOSES TO MAKE SUCH AN ELECTION, THIS FORM MUST BE FILED NO LATER THAN THIRTY (30) DAYS AFTER THE SHARES ARE TRANSFERRED TO HIM. FAILURE TO MAKE A TIMELY SECTION 83(b) ELECTION MAY RESULT IN THE RECOGNITION OF ORDINARY INCOME BY THE GRANTEE AS THE REPURCHASE RIGHT LAPSES. IT IS THE GRANTEE'S SOLE RESPONSIBILITY, AND NOT BANCORP'S, TO MAKE A TIMELY SECTION 83(b) ELECTION.
  - g. THE GRANTEE IS ADVISED TO SEEK INDEPENDENT ADVICE REGARDING THE APPLICABLE PROVISIONS OF ANY TAX LAWS RELATING TO HIS ACQUISITION OF ANY SHARES.
- 6. Securities Law Compliance.** Notwithstanding any contrary provisions of this Agreement, the Shares may not be sold, assigned or transferred, unless they are registered under applicable Federal and state securities laws and regulations or, if the Shares are not then so registered, an exemption from such registration is available.
- 7. Miscellaneous**
- a. Corporate Sale Transactions. In the event of the merger or reorganization of Bancorp with or into any other corporation, the sale of substantially all of the assets of Bancorp, or a dissolution or liquidation of Bancorp (collectively, "Sale Transaction"), (1) the vesting schedule for otherwise Unvested Shares shall be accelerated so that such Shares will be fully vested; and (2) the forfeiture and Repurchase Right provisions set forth in paragraph 2 shall lapse and be unenforceable as to such previously Unvested Shares.
  - b. Successors in Interest. This Agreement and all of its terms, conditions and covenants are intended to be fully effective and binding, to the extent permitted by law, on the heirs, executors, administrators, successors and permitted assigns of the parties hereto.
  - c. Spousal Consent. If the Grantee is married, the Grantee shall obtain the signature of the Grantee's spouse as set forth on the Consent of Spouse below. The Grantee's failure to obtain such consent shall constitute a representation by the Grantee, on which Bancorp shall rely, that the Grantee is unmarried and that the Grantee has sole authority with respect to the Grantee's actions regarding the Shares.
  - d. No Right to Continuing Status as a Director. Nothing in this Agreement shall affect in any manner whatsoever the right or power of Grantee or of the shareholders of Bancorp to terminate Grantee's status as Director of Bancorp at any time.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first indicated above.

GRANTEE:

INTERMOUNTAIN COMMUNITY BANCORP,  
an Idaho corporation

By: \_\_\_\_\_

By: \_\_\_\_\_

**Name:**

President & CEO

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Social Security No. \_\_\_\_\_

Grantee hereby acknowledges that he or she has received a copy of the Plan.

**By:** \_\_\_\_\_

**Name:**



**Spousal Acknowledgement**

The undersigned spouse of Grantee has read and hereby approves the foregoing Agreement. In partial consideration of Bancorp granting to Grantee the right to acquire the Shares in accordance with the terms of this Agreement, the undersigned hereby agrees to be irrevocably bound by all the terms of such Agreement, including, without limitation, the right of the Bancorp to repurchase any Unvested Shares of Grantee pursuant to this Agreement.

**Signature:** \_\_\_\_\_

**Print  
Name:** \_\_\_\_\_

**Address:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Social Security No.** \_\_\_\_\_



EXHIBIT A

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto, \_\_\_\_\_,  
\_\_\_\_\_ ( \_\_\_\_\_ ) shares of the Common Stock of Intermountain Community Bancorp, an Idaho  
corporation, standing in the undersigned's name on the books of said corporation represented by Certificate No. \_\_\_ herewith, and  
does hereby irrevocably constitute and appoint \_\_\_\_\_  
as attorney-in-fact, to transfer the said stock on the books of the said corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, \_\_\_\_\_

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

## EXHIBIT B

## SECTION 83(b) TAX ELECTION

The undersigned hereby elects pursuant to Internal Revenue Code § 83(b) with respect to the property described in paragraph 2 below and supplies the following information in accordance with the regulations promulgated thereunder:

1. *The name, address and taxpayer identification number of the undersigned are:*

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Taxpayer I.D. No. \_\_\_\_\_

2. *Description of property with respect to which the election is being made:*

\_\_\_\_\_ shares of Common Stock, no par value, in Intermountain Community Bancorp (the "Bancorp").

3. *Date on which property is transferred and taxable year for which the election is made:*

The transfer of the property described in paragraph 2 occurred on \_\_\_\_\_, when the restrictions described in paragraph 4 were imposed.

The taxable year for which this election is made is calendar year \_\_\_\_\_.

4. *The nature of the restriction(s) to which the property is subject is:*

The subject shares are subject to a Restricted Stock Award Agreement between the shareholder and Bancorp dated

\_\_\_\_\_,  
 (the "Award Agreement") pursuant to which the shares are subject to forfeiture or a right of purchase by Bancorp in the event that the shareholder's service to Bancorp is voluntarily terminated or terminated for cause, as defined in the Award Agreement. If the right of repurchase is exercised, the purchase price is the price originally paid for the share by taxpayer. The right of repurchase lapses as to \_\_\_\_\_ of the original number of shares acquired by taxpayer as the shareholder completes each year of continuous service with Bancorp.

The property is non-transferable in the taxpayer's hands, by virtue of language to that effect stamped on the stock certificate.

5. *Fair market value:*

On the date the restrictions described in paragraph 4 were imposed, the shares described in paragraph 2 had a fair market value of \_\_\_\_\_.

6. *Amount paid for property:*

None, the property had a purchase price of —0—.

7. *Furnishing statement to issuer:*

A copy of this statement has been furnished to Bancorp, as required by Reg. § 1.83(b)-2(d).

Dated: \_\_\_\_\_.

\_\_\_\_\_  
Print Name: \_\_\_\_\_

THIS ELECTION MUST BE FILED WITH THE INTERNAL REVENUE SERVICE CENTER WITH WHICH TAXPAYER FILES HIS OR HER FEDERAL INCOME TAX RETURNS. THE ELECTION MUST BE FILE WITHIN THIRTY (30) DAYS AFTER THE TRANSFER OF SHARES TO HIM OR HER. THIS FILING SHOULD BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED. PURCHASER MUST RETAIN TWO (2) COPIES OF THE COMPLETED FORM FOR FILING WITH HIS OR HER FEDERAL AND STATE TAX RETURNS FOR THE CURRENT TAXABLE YEAR AND AN ADDITIONAL COPY FOR HIS OR HER RECORDS.

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## **Section 4: EX-10.7 (EXHIBIT 10.7)**

Exhibit 10.7

**PANHANDLE STATE BANK  
AMENDED AND RESTATED  
STOCK PURCHASE BONUS AGREEMENT  
FOR**

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**THIS AMENDED AND RESTATED STOCK PURCHASE BONUS AGREEMENT**  
 (“Agreement”) is made and entered into this \_\_\_\_\_, \_\_, by and among **PANHANDLE STATE BANK, an Idaho corporation (“Bank”), INTERMOUNTAIN COMMUNITY BANCORP, an Idaho corporation (“Bancorp”) and \_\_\_\_\_ (“Officer”).**

*Recitals*

- A. Bancorp owns all of the issued and outstanding shares of stock of Bank.
- B. Officer is an employee of Bank. Bank wishes to provide a bonus to Officer, under the terms and conditions set forth herein, to encourage Officer to purchase shares of stock in Bancorp.

NOW, THEREFORE, in consideration of the foregoing, and the mutual agreements and covenants of the parties hereto, the parties agree to the following:

*Agreement*

- 1. General. The total bonus amount contemplated to be paid to Officer pursuant to this agreement is \_\_\_\_\_ (\$ (“Bonus”)) conditioned upon the purchase by the Officer of certain shares of Bancorp stock as provided herein. To qualify for the Bonus, the Officer shall purchase shares of Bancorp stock with an aggregate gross cost of \_\_\_\_\_ (\$ (“required purchase amount”)) on or before November 30, \_\_. In the event the Officer does not purchase all of the required purchase amount by said date, the amount of the Bonus and each annual installment as hereinafter provided shall be reduced by the same proportion as (i) the required purchase amount that is not purchased by the required date bears to (ii) the total required purchase amount. The Officer shall purchase the required \_\_\_\_\_ shares on the open market.
  - a. Notice of Purchase. Within thirty (30) days after Officer purchases shares of Bancorp stock pursuant to this Agreement, Officer shall provide Bank with a written notice of the same, identifying in such notice the number of shares of Bancorp stock so purchased (“Purchased Shares”), the date of purchase and the purchase price paid by Officer for the Purchased Shares.

- b. Payment of Bonus. Provided the Officer completes the purchase of Bancorp \_\_\_\_\_ (\$ ) stock by November 30, \_\_, and provides Bank with the written notice thereof described in paragraph 1. a hereof, Bank shall pay to Officer the Bonus amount, or proportionate share thereof, in installments as follows. Such Bonus shall be paid to the Officer over a \_\_\_\_\_ ( \_\_ ) year period with \_\_\_\_\_ ( \_\_ % ) payable per year commencing December 15, \_\_. As a result, each annual installment of the Bonus amount during the \_\_\_\_\_ ( \_\_ ) years shall be \_\_\_\_\_ (\$ ). The first such installment shall be due and payable on or before December 15, \_\_ and subsequent annual installment payments shall be due and payable on or before each anniversary date of the first payment date, until the entire applicable Bonus amount is paid in full. Officer shall not be entitled to be paid interest with respect to the unpaid balance.
- c. Tax Withholding. Notwithstanding any contrary provisions of this Agreement, Bank shall withhold from the Bonus, and pay to the appropriate government agencies, all taxes that Bank is required by law to so withhold and pay. Amounts so withheld and paid shall be treated as having been actually paid to Officer hereunder, and Bank shall be relieved from further liability to Officer for such amounts.
2. Earning of Bonus. No annual installment of the Bonus shall be considered earned until such installment is actually paid to Officer pursuant to this Agreement. Officer shall forfeit, and shall have no further rights to any unpaid annual installment of the Bonus, if Officer is not a full-time employee of Bank on the date such installment is due and payable hereunder.
3. Nonassignment. The rights of the parties hereunder may not be assigned to any person and any attempt to so assign such rights shall be void and of no effect.
4. Binding Effect. This Agreement shall be binding upon the parties and their successors or assigns.
5. Not an Employment Contract. This Agreement is not a contract of employment and does not give Officer the right to be employed by Bank. Nothing contained herein shall interfere with the right of Bank or Officer to terminate Officer's employment with Bank.
6. Savings Clause Relating to Compliance with Code Section 409A. Despite any contrary provision of this Agreement, if any payments under Section 1 of this Agreement will result in additional tax or interest to the Officer because of section 409A, the Officer shall not be entitled to the payments under Section 1 until the earliest of (i) the date that is at least six months after termination of the Officer's employment for reasons other than the death, (ii) the date of the Officer's death, or (iii) any earlier date that does not result in additional tax or interest to the Officer under section 409A. If any provision of this Agreement would subject the Officer to additional tax or interest under section 409A, the Bank and Bancorp shall reform the provision. However, the Bank and Bancorp shall maintain to the maximum extent practicable the original intent of the applicable provision

without subjecting the Officer to additional tax or interest, and the Bank and Bancorp shall not be required to incur any additional compensation expense as a result of the reformed provision.

7. IN WITNESS WHEREOF, the parties hereto have executed, or have caused their duly authorized representative to execute, this Agreement in the place provided below.

PANHANDLE STATE BANK,  
an Idaho corporation

\_\_\_\_\_  
Curt Hecker, Chief Executive Officer

Date: \_\_\_\_\_

INTERMOUNTAIN COMMUNITY Bancorp,  
an Idaho corporation

\_\_\_\_\_  
Curt Hecker, President & Chief Executive Officer

Date: \_\_\_\_\_

OFFICER

\_\_\_\_\_

Date: \_\_\_\_\_

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## **Section 5: EX-10.8 (EXHIBIT 10.8)**

**Exhibit 10.8****EXECUTIVE EMPLOYMENT AGREEMENT  
(Amended and Restated)**

This Amended and Restated **EXECUTIVE EMPLOYMENT AGREEMENT** ("Agreement") is dated as of **January 1, 2008**. The effective date of this Agreement is **January 1, 2002** (the "Effective Date"). The parties to this Agreement ("Parties") are **INTERMOUNTAIN COMMUNITY BANCORP**, an Idaho corporation ("IMCB"), **PANHANDLE STATE BANK**, an Idaho state-chartered bank ("PSB") (IMCB and PSB individually and collectively being "Employer") and **CURT HECKER** ("Executive").

**Recitals**

A. Executive is employed by Employer in an executive management capacity, presently holding the position of President and CEO of IMCB and CEO of PSB. The Parties wish to continue Executive's employment in that capacity under the terms and conditions of this Agreement.

B. Executive previously entered into (i) an Executive Employment Agreement with Employer dated as of January 1, 2002, and (ii) an Executive Severance Agreement dated as of September 15, 1999, as amended, with Panhandle Bancorp, the predecessor name of IMCB (the "Change in Control Agreement"), which provided for certain severance payments to Executive in the event of a change in control of IMCB. The Executive Employment Agreement was amended and restated December 17, 2003 and the Executive Severance Agreement was merged therein thereby terminating a separate Executive Severance Agreement. Executive also previously entered into a Tax Payment Bonus Plan dated as of December 1, 2000 with IMCB (the "Tax Bonus Agreement").

C. The December 17, 2003 amended and restated Executive Employment Agreement was amended on March 24, 2004 by a First Amendment and again on March 4, 2005 by a Second Amendment. This amendment and restatement of Executive Employment Agreement is intended to incorporate, restate and replace all prior Executive Employment Agreements and amendments.

D. This amendment and restatement of Executive Employment Agreement is intended to incorporate and make such modifications as shall be necessary to comply with Internal Revenue Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury.

**Agreement**

- 1) **Term of Agreement.** The term of this employment agreement is three (3) years, commencing on the Effective Date (the "Term"). The agreement will automatically renew every three years unless cancelled by the Board of Directors within 60 days of the expiration of the term. Notwithstanding the preceding, if a definitive agreement
-

providing for a Change in Control (defined below) is entered into (i) on or before the expiration of the Term or (ii) within twelve (12) months after Executive's involuntary termination other than for Cause, Disability, Retirement or death, then expiration of such Term shall be extended through the Severance Protection Period (defined below).

- 2) **Employment.** Employer will continue Executive's employment during the Term, and Executive accepts employment by Employer on the terms and conditions set forth in this Agreement. Executive's title will be "President and Chief Executive Officer (CEO)" of IMCB and "CEO" of PSB.
- 3) **Duties of Executive.** Executive will report directly to the Chairman of the Board of IMCB. Executive will be responsible for the following duties:
  - a) Development of and compliance with all bank policies and compliance laws governing a financial holding company (IMCB) and the bank (PSB).
  - b) Calls on the most important existing and potential corporate customers.
  - c) Supervision of bank's strategic plan in all aspects.
  - d) Expansion into new markets and recruitment of employees.
  - e) Serving on PSB committees including: Executive Management, Senior Management, Senior Credit, Compliance, Risk Management, Technology, and Human Resources.
  - f) Representing PSB at civic and community activities.
  - g) Supervising the President of PSB, ICB Idaho, ICB Washington and MVB in the implementation of an effective branch operations system.
  - h) Supervising the CFO in the implementation of effective finance and accounting systems, compliance with all SEC laws, information technology systems, marketing and solution development, credit operations and loan origination.
  - i) Supervising the COO in the implementation of effective compliance systems, human resource management, administrative and branch deposit operations, training, contact center and administer secured savings program.
  - j) Supervising the Credit Administrator in the implementation of an effective lending operation to include credit approval, credit risk management, examination and loan collections.
  - k) Supervising the SVP of Trust & Wealth Management and Intermountain Community Investments in the implementation of an effective Trust Department and Securities Broker/Dealer operation.
  - l) Supervising the Executive Assistant in the preparation of reports and completion of various administrative tasks.
- 4) **Commitment of Executive.** (a) Executive will faithfully and diligently perform the duties set forth in Section 3 and such other duties as may be assigned to Executive from time to time by IMCB's board of directors (the "Board"). Executive will use his best efforts to perform his duties and will devote full time and attention to these duties during working hours. Executive may engage in non-IMCB business activities with prior Board approval, which approval will not be unreasonably withheld.



- (b) In the event that any person extends any proposal or offer which is intended to or may result in a Change in Control, defined below (a "Change in Control Proposal"), Executive shall, at Employer's request, assist Employer in evaluating such proposal or offer. Further, as a condition to receipt of the Severance Payment (defined below), Executive agrees not to voluntarily resign (including resignation for Good Reason) Executive's position with Employer during any period from the receipt of a specific Change in Control Proposal up to the consummation or abandonment of the transaction contemplated by such Proposal.
- 5) **Salary.** Executive will receive an annual base salary of \$216,320 to be paid in accordance with PSB's regular payroll schedule. The Executive Committee of the Board will review Executive's salary in connection with its performance review on an annual basis.
- 6) **Other Compensation.** Executive will participate in both the Long-Term Incentive Plan and Executive Incentive Plan administered by the Human Resource Committee.
- a) Executive is eligible to participate in PSB's 401K retirement plan with employer match of 50% of first 8% of salary contributed.
- b) Executive may receive stock grants annually, based on performance evaluation at the discretion of the Board of Directors.
- c) Executive's Tax Bonus Agreement with IMCB shall not be affected by this Agreement, and Executive shall continue to receive payments in accordance with the terms of the Tax Bonus Agreement.
- 7) **Salary Continuation Plan.** In consideration of this agreement, IMCB has entered into a Salary Continuation Agreement with Executive, substantially in the form approved by IMCB's board of directors on October 22, 2003 (the "Salary Continuation Agreement").
- 8) **Vacation and Benefits.** Executive is eligible for four (4) weeks of paid vacation per year. Unused vacation time will not be carried over. Additional benefits include life insurance of \$50,000 for Executive and \$2,000 for Executive's spouse and \$2,000 for each dependent, and miscellaneous firm-wide benefits such as free checking account, safe deposit box, no fee investments, etc. Executive shall also be entitled to use of a company automobile with gas card.
- 9) **Termination and Severance Provisions.** If, during the Term, Executive's employment with Employer is involuntarily terminated without Cause or if Employee voluntarily terminates employment with Employer either with Good Reason or without Good Reason, and provided that such termination does not otherwise entitle Executive to receive a Severance Payment (as defined below) under Section 10 of this Agreement, Executive will be entitled to receive a termination payment equal to two (2) times the average of the total base compensation received by Executive for each of the two most recent calendar years ("Termination Payment"). The Termination Payment shall be paid in one lump sum payment, payable on the first day of the seventh month after the month in which the Executive's termination of

employment occurs. Notwithstanding the preceding, in the event that a definitive agreement providing for a Change in Control (each as defined below) is entered into within twelve (12) months after Executive's involuntary termination without Cause or voluntary termination with or without Good Reason, Executive shall be entitled to receive the difference between the Severance Payment and the Termination Payment. Such difference shall be paid to the Executive on the later of the date of termination, the effective date of the Change in Control, or the first day of the seventh month after the month in which the Executive's termination of employment occurred.

#### 10) Change in Control/Severance Payment.

- a) Payment Events. Subject to the requirements of Section 4(b) of this Agreement, in the event of involuntary termination of Executive's employment with Employer, other than for Cause, Disability, Retirement, (each defined below) or death, or in the event of voluntary termination for Good Reason (defined below), (i) within the Severance Protection Period after a Change in Control, (ii) within twelve (12) months before a definitive agreement providing for a Change in Control is entered into or (iii) within the period between the date a definitive agreement is executed and the effective date of the Change of Control, Employer will pay Executive a severance payment in the amount determined pursuant to the next section ("Severance Payment"), payable on the later of the date of termination, the effective date of the Change in Control, or the first day of the seventh month after the month in which the Executive's termination of employment occurs. The "Severance Protection Period" shall be the period beginning on the effective date of the Change of Control and continuing thereafter for twenty-four (24) months.
- b) Amount of Payment. The Severance Payment shall be an amount equal to two (2) times the average of the total base compensation and short term bonus received by Executive for each of the two most recent calendar years.

#### 11) Excise Tax Under Internal Revenue Code Sections 280G and 4999.

- a) Partial Reimbursement of Excise Tax. If a Change in Control occurs the Executive may become entitled to acceleration of benefits under this Agreement or under any other plan or agreement of or with PSB or IMCB, including accelerated vesting of stock options and acceleration of benefits under any other benefit, compensation, or incentive plan or arrangement with PSB or IMCB (collectively, the "Total Benefits"). If a Change in Control occurs, IMCB and PSB shall cause the certified public accounting firm retained by IMCB as of the date immediately before the Change in Control (the "Accounting Firm") to calculate the Total Benefits and any excise tax payable by the Executive under sections 280G and 4999 based upon the Total Benefits. If the Accounting Firm determines that an excise tax is payable, at the same time PSB pays the Change in Control benefit under Section 10 of this Agreement, and not before, PSB shall also pay to the Executive an amount in cash equal to the excise tax calculated by the Accounting Firm (the "Excise Tax"). The Executive acknowledges and agrees

that this Section 11 provides for partial reimbursement only of the final excise tax that may be payable by him, and that additional unreimbursed excise taxes may be payable by him after taking into account the reimbursement payment provided under this Section 11. The partial reimbursement of the excise tax under this Section 11 shall be made in addition to the amount set forth in Section 10.

- (b) Calculating the Excise Tax. For purposes of determining whether any of the Total Benefits will be subject to the Excise Tax and for purposes of determining the amount of the Excise Tax,
- 1) *Determination of "Parachute Payments" Subject to the Excise Tax:* any other payments or benefits received or to be received by the Executive in connection with a Change in Control or the Executive's Termination of Employment (whether under the terms of this Agreement or any other agreement, stock option plan or any other benefit plan or arrangement with PSB or IMCB, any person whose actions result in a Change in Control or any person affiliated with PSB, IMCB, or such person) shall be treated as "parachute payments" within the meaning of section 280G(b)(2) of the Internal Revenue Code, and all "excess parachute payments" within the meaning of section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of the Accounting Firm such other payments or benefits do not constitute (in whole or in part) parachute payments, or such excess parachute payments represent (in whole or in part) reasonable compensation for services actually rendered within the meaning of section 280G(b)(4) of the Internal Revenue Code in excess (as defined in section 280G(b)(3) of the Internal Revenue Code), or are otherwise not subject to the Excise Tax,
  - 2) *Calculation of Benefits Subject to Excise Tax:* the amount of the Total Benefits that shall be treated as subject to the Excise Tax shall be equal to the lesser of (a) the total amount of the Total Benefits reduced by the amount of such Total Benefits that in the opinion of the Accounting Firm are not parachute payments, or (b) the amount of excess parachute payments within the meaning of section 280G(b)(1) (after applying clause (i), above), and
  - 3) *Value of Noncash Benefits and Deferred Payments:* the value of any noncash benefits or any deferred payment or benefit shall be determined by the Accounting Firm in accordance with the principles of sections 280G(d)(3) and (4) of the Internal Revenue Code.
- (c) Assumed Marginal Income Tax Rate. For purposes of determining the amount of the partial Excise Tax reimbursement payment to be made under this Section 11, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the partial Excise Tax reimbursement under this Section 11 is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the date of Termination of

Employment, net of the reduction in federal income taxes that can be obtained from deduction of such state and local taxes (calculated by assuming that any reduction under section 68 of the Internal Revenue Code in the amount of itemized deductions allowable to the Executive applies first to reduce the amount of such state and local income taxes that would otherwise be deductible by the Executive, and applicable federal FICA and Medicare withholding taxes).

- (d) Accounting Firm's Determinations Are Final and Binding. All determinations made by the Accounting Firm under this Section 11 shall be final and binding on PSB, IMCB, and the Executive. All determinations required to be made under this Section 11 – including the assumptions used to calculate Total Benefits and the Excise Tax – shall be made by the Accounting Firm, which shall provide detailed supporting calculations both to PSB and the Executive.

## 12) Definitions

- a) Termination for Cause and Cause. “Involuntary Termination for Cause” and “Cause” mean termination of the Executive’s employment for any of the following reasons:
- 1) the Executive’s gross negligence or gross neglect of duties or intentional and material failure to perform stated duties after written notice thereof, or;
  - 2) disloyalty or dishonesty by the Executive in the performance of the Executive’s duties, or a breach of the Executive’s fiduciary duties for personal profit, in any case whether in the Executive’s capacity as a director or officer, or
  - 3) intentional wrongful damage by the Executive to the business or property of the Bank or its affiliates, including without limitation the reputation of the Bank, which in the judgment of the Bank causes material harm to the Bank or affiliates, or
  - 4) a willful violation by the Executive of any applicable law or significant policy of the Bank or an affiliate that, in the Bank’s judgment, results in an adverse effect on the Bank or the affiliate, regardless of whether the violation leads to criminal prosecution or conviction. For purposes of this Agreement, applicable laws include any statute, rule, regulatory order, statement of policy, or final cease-and-desist order of any governmental agency or body having regulatory authority over the Bank, or
  - 5) the occurrence of any event that results in the Executive being excluded from coverage, or having coverage limited for the Executive as compared to other executives of the Bank, under the Bank’s blanket bond or other fidelity or insurance policy covering its directors, officers, or employees, or
  - 6) the Executive is removed from office or permanently prohibited from participating in the Bank’s affairs by an order issued under section

8(e)(4) or section 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), or

- 7) conviction of the Executive for or plea of no contest to a felony or conviction of or plea of no contest to a misdemeanor involving moral turpitude, or the actual incarceration of the Executive for 45 consecutive days or more.
- b) Change in Control. “Change in Control” means a change in control as defined in Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, including:
- 1) *Change in ownership*: a change in ownership of Intermountain Community Bancorp, an Idaho corporation of which the Employer is a wholly owned subsidiary, occurs on the date any one person or group accumulates ownership of Intermountain Community Bancorp stock constituting more than 50% of the total fair market value or total voting power of Intermountain Community Bancorp stock,;
  - 2) *Change in effective control*: (i) any one person, or more than one person acting as a group, acquires within a 12-month period ownership of Intermountain Community Bancorp stock possessing 30% or more of the total voting power of Intermountain Community Bancorp stock, or (ii) a majority of Intermountain Community Bancorp’s board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed in advance by a majority of Intermountain Community Bancorp’s board of directors, or;
  - 3) *Change in ownership of a substantial portion of assets*: a change in ownership of a substantial portion of Intermountain Community Bancorp’s assets occurs if in a 12-month period any one person or more than one person acting as a group acquires from Intermountain Community Bancorp assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of Intermountain Community Bancorp’s assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of Intermountain Community Bancorp’s assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.
- c) Change in Control Proposal. “Change in Control Proposal” has the meaning assigned in Section 4(b) of this Agreement.
- d) Disability. “Disability” means, because of a medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for a continuous period of at least 12 months, (i) the Executive is unable to engage in any substantial gainful activity, or (ii) the Executive is receiving income replacement benefits for a period of at least three months under an accident and health plan of the employer. Medical determination of disability may be made either by the Social Security Administration or by the provider of an accident or health plan covering

employees of the Employer. Upon request of the Plan Administrator, the Executive must submit proof to the Plan Administrator of the Social Security Administration's or provider's determination.

- e) **Retirement.** "Retirement" shall mean voluntary termination by Executive in accordance with PSB's retirement policies, including early retirement, if applicable to their salaried employees.
- f) **Good Reason.** "Voluntary Termination with Good Reason" means a voluntary termination of employment by the Executive if any one or more of the following conditions occur without the Executive's advance written consent, provided that (i) Executive shall have given notice to the Employer of the existence of one or more of the following conditions within ninety (90) days following the initial existence of the condition(s), (ii) that within thirty (30) days after such notice Employer shall have failed to remedy such condition(s) and (iii) the Executive's voluntary termination due to one or more of such conditions shall have occurred within twenty-four (24) months following the initial existence of at least one of the conditions:
- 1) a material diminution of the Executive's base salary;
  - 2) a material diminution of the Executive's authority, duties, or responsibilities;
  - 3) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report, including a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the board of directors;
  - 4) a material diminution in the budget over which the Executive retains authority;
  - 5) a material change in the geographic location at which the Executive must perform services for the Employer, or;
  - 6) any other action or inaction that constitutes a material breach by the Employer of this agreement or of any other agreement under which the Executive provides services to the Employer.
- 13) **Confidentiality.** Executive will not, after signing this Agreement, including during and after its Term, use for his own purposes or disclose to any other person or entity any confidential information concerning Employer or its business operations or customers, unless (1) Employer consents to the use or disclosure of its confidential information, (2) the use or disclosure is consistent with Executive's duties under this Agreement, or (3) disclosure is required by law or court order. Confidential information includes, but is not limited to, financial information, customer lists, marketing strategies, and business plans.
- 14) **Return of Employer Property.** If and when Executive ceases, for any reason, to be employed by Employer, Executive must return to Employer all keys, pass cards, identification cards and any other property of Employer. At the same time, Executive also must return to Employer all originals and copies (whether in hard copy, electronic or other form) of any documents, notes, memoranda, designs, devices,

diskettes, tapes, manuals, and specifications which constitute proprietary information or material of Employer. The obligations in this Section include the return of documents and other materials which may be in Executive's desk at work, in Executive's car or place of residence, or in any other location under Executive's control.

- 15) **Non-Solicitation.** Executive shall not solicit or cause to be solicited for employment any employee of Employer for a period of two (2) years following Executive's termination; nor solicit or cause to be solicited the business and/or accounts of customers of Employer for a period of two years following Executive's termination. Executive's obligations under this Section 15 terminate immediately upon a Change in Control.
- 16) **Non-competition.** Except as otherwise expressly provided in this Agreement, while Executive is employed by Employer and for two years following termination of Executive's employment for any reason, Executive will not become involved with a Competing Business or serve, directly or indirectly, a Competing Business in any manner, including, without limitation, as a shareholder, member, partner, director, officer, manager, investor, organizer, "founder," employee, consultant, or agent; provided, however, that Executive may acquire and passively own an interest not exceeding 2% of the total equity interest in a Competing Business. Executive's obligations under this Section 16 terminate immediately upon a Change in Control. For purposes of this Agreement, the term "Competing Business" means any financial service institutions, including without limitation banks, insurance companies, leasing companies, mortgage companies, and brokerage firms that engage in business in the State of Idaho, or southeastern Oregon, or eastern Washington.
- 17) **Enforcement.**
- a) Employer and Executive stipulate that, in light of all of the facts and circumstances of the relationship between Executive and Employer, the agreements referred to in Sections 15 and 16 (including without limitation their scope, duration and geographic extent) are fair and reasonably necessary for the protection of Employer's goodwill and other protectable interests. If a court of competent jurisdiction should decline to enforce any of those covenants and agreements, Executive and Employer request the court to reform these provisions to restrict Executive's ability to compete with Employer to the maximum extent, in time, scope of activities, and geography, the court finds enforceable.
- b) Executive acknowledges that Employer will suffer immediate and irreparable harm that will not be compensable by damages alone, if Executive repudiates or breaches any of the provisions of Sections 15 and 16 or threatens or attempts to do so. For this reason, under these circumstances, Employer, in addition to and without limitation of any other rights, remedies or damages available to it at law or in equity, will be entitled to obtain temporary, preliminary, and permanent injunctions in order to prevent or restrain the

breach, and Employer will not be required to post a bond as a condition for the granting of this relief.

- 18) **Adequate Consideration.** Executive specifically acknowledges the receipt of adequate consideration, including without limitation the Termination Payment, identified in Section 9, if due and owing, for the covenants contained in Sections 15 and 16 and that Employer is entitled to require him to comply with those Sections regardless of the reason(s) for Executive's separation of employment with Employer. Sections 15 and 16 will survive termination of this Agreement, but will expire no later than two years from the date of the termination of employment or the maturity of this agreement, whichever is later. Executive represents that if his employment is terminated, whether voluntarily or involuntarily, Executive has experience and capabilities sufficient to enable Executive to obtain employment in areas which do not violate this Agreement and that Employer's enforcement of a remedy by way of injunction will not prevent Executive from earning a livelihood.
- 19) **Entire Agreement.** This agreement constitutes the entire understanding between the parties concerning its subject matter and supersedes all prior agreements, including that certain employment agreement between Executive and Employer effective January 1, 2002 and the Change in Control Agreement. Accordingly, Executive specifically waives the terms of and all of Executive's rights under any severance provisions of any employment and/or change-in-control agreements, whether written or oral, previously entered into with PSB and/or IMCB. Notwithstanding the preceding, the terms of this agreement are separate from and do not supercede the terms of the Tax Bonus Agreement or the Salary Continuation Agreement.
- 20) **Savings Clause Relating to Compliance with Code Section 409A.** Despite any contrary provision of this Agreement, if when the Executive's employment terminates the Executive is a specified employee, as defined in Code section 409A, and if any payments under Articles 9, 10 or 11 of this Agreement will result in additional tax or interest to the Executive because of section 409A, the Executive shall not be entitled to the payments under Articles 9, 10 or 11 until the earliest of (i) the date that is at least six months after termination of the Executive's employment for reasons other than the Executive's death, (ii) the date of the Executive's death, or (iii) any earlier date that does not result in additional tax or interest to the Executive under section 409A. If any provision of this Agreement would subject the Executive to additional tax or interest under section 409A, the Employer shall reform the provision. However, the Employer shall maintain to the maximum extent practicable the original intent of the applicable provision without subjecting the Executive to additional tax or interest, and the Employer shall not be required to incur any additional compensation expense as a result of the reformed provision.
- 21) **Miscellaneous Provisions.**
- a) Choice of Law. This Agreement is made with reference to and is intended to be construed in accordance with the laws of the State of Idaho.



- b) Payment of Legal Fees. Employer is aware that after a Change in Control management could cause or attempt to cause Employer to refuse to comply with the obligations under this Agreement, or could institute or cause or attempt to cause Employer to institute litigation seeking to have this Agreement declared unenforceable, or could take or attempt to take other action to deny Executive the benefits intended under this Agreement. In these circumstances the purpose of this Agreement would be frustrated. It is Employer's intention that the Executive not be required to incur the expenses associated with the enforcement of his rights under this Agreement, whether by litigation or other legal action, because the cost and expense thereof would substantially detract from the benefits intended to be granted to the Executive hereunder. It is Employer's intention that the Executive not be forced to negotiate settlement of his rights under this Agreement under threat of incurring expenses. Accordingly, if after a Change in Control occurs it appears to the Executive that (a) Employer has failed to comply with any of its obligations under this Agreement, or (b) Employer or any other person has taken any action to declare this Agreement void or unenforceable, or instituted any litigation or other legal action designed to deny, diminish, or to recover from the Executive the benefits intended to be provided to the Executive hereunder, Employer irrevocably authorize the Executive from time to time to retain counsel of his choice, at Employer's expense as provided in this paragraph (b), to represent the Executive in connection with the initiation or defense of any litigation or other legal action, whether by or against Employer or any director, officer, stockholder, or other person affiliated with Employer, in any jurisdiction. Notwithstanding any existing or previous attorney-client relationship between Employer and any counsel chosen by the Executive under this paragraph (b), Employer irrevocably consents to the Executive entering into an attorney-client relationship with that counsel, and Employer and the Executive agree that a confidential relationship shall exist between the Executive and that counsel. The fees and expenses of counsel selected from time to time by the Executive as provided in this section shall be paid or reimbursed to the Executive by Employer on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by such counsel in accordance with such counsel's customary practices, up to a maximum aggregate amount of \$500,000, whether suit be brought or not, and whether or not incurred in trial, bankruptcy, or appellate proceedings. Employer's obligation to pay the Executive's legal fees provided by this paragraph (b) operates separately from and in addition to any legal fee reimbursement obligation Employer may have with the Executive under any separate severance, employment, salary continuation, or other agreement. Anything in this paragraph (b) to the contrary notwithstanding however, Employer shall not be required to pay or reimburse the Executive's legal expenses if doing so would violate section 18(k) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)] and Rule 359.3 of the Federal Deposit Insurance Corporation [12 CFR 359.3].

- c) Successors. This Agreement shall bind and inure to the benefit of the Parties and each of their respective affiliates, legal representatives, heirs, successors and assigns.
- d) Amendment. This Agreement may be amended only in a writing signed by the Parties.
- e) Headings. The headings of sections of this Agreement have been included for convenience of reference only. They shall not be construed to modify or otherwise affect in any respect any of the provisions of the Agreement.
- f) Counsel Review. Executive acknowledges that he has had the opportunity to consult with independent counsel with respect to the negotiation, preparation, and execution of this Agreement.
- g) Severability. The provisions of this Agreement are severable. The invalidity of any provision will not affect the validity of other provisions of this Agreement.

EXECUTED by each of the Parties effective as of the date first stated above.

IMCB  
Intermountain Community Bancorp,  
an Idaho Corporation

EXECUTIVE  
Curt Hecker  
President & CEO, Intermountain  
Community Bancorp  
CEO, Panhandle State Bank

/s/ \_\_\_\_\_  
John B. Parker  
Chairman of the Board  
Date: \_\_\_\_\_

/s/ \_\_\_\_\_  
Curt Hecker  
Date: \_\_\_\_\_

PSB  
Panhandle State Bank,  
an Idaho State Chartered Bank

/s/ \_\_\_\_\_  
John B. Parker  
Chairman of the Board  
Date: \_\_\_\_\_

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## Section 6: EX-10.9 (EXHIBIT 10.9)

EXHIBIT 10.9

PANHANDLE STATE BANK  
SALARY CONTINUATION AGREEMENT  
(AMENDED AND RESTATED)

This AMENDED AND RESTATED SALARY CONTINUATION AGREEMENT (this "Agreement") is entered into as of this 1st day of January, 2008, by and between Panhandle State Bank, an Idaho-chartered bank (the "Bank"), and Curt Hecker, Chief Executive Officer of the Bank (the "Executive").

WHEREAS, the Executive and the Bank entered into a Salary Continuation Agreement dated as of January 1, 2002,

WHEREAS, the Executive and the Bank desire to amend the Salary Continuation Agreement and, as amended, to restate the Salary Continuation Agreement in its entirety,

WHEREAS, none of the conditions or events included in the definition of the term "golden parachute payment" that is contained in section 18(k)(4)(A)(ii) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)(4)(A)(ii)] and in Federal Deposit Insurance Corporation Rule 359.1(f)(1)(ii) [12 CFR 359.1(f)(1)(ii)] exists or, to the best knowledge of the Bank, is contemplated insofar as the Bank is concerned, and

WHEREAS, the parties hereto intend that this Agreement shall be considered an unfunded arrangement maintained primarily to provide supplemental retirement benefits for the Executive, and to be considered a non-qualified benefit plan for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Executive is fully advised of the Bank's financial status.

NOW THEREFORE, in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Bank hereby agree as follows.

#### ARTICLE 1 DEFINITIONS

1.1 "ACCRUAL BALANCE" means the liability that should be accrued by the Bank under generally accepted accounting principles ("GAAP") for the Bank's obligation to the Executive under this Agreement, applying Accounting Principles Board Opinion No. 12, as amended by Statement of Financial Accounting Standards No. 106, and the calculation method and discount rate specified hereinafter. The Accrual Balance shall be calculated such that when it is credited with interest each month the Accrual Balance at Normal Retirement Age equals the present value of the normal retirement benefits. The discount rate means the rate used by the Plan Administrator for determining the Accrual Balance. The rate is based on the yield on a 20-year corporate bond rated Aa by Moody's, rounded to the nearest -1/4%. In its sole discretion, the Plan Administrator may adjust the discount rate to maintain the rate within reasonable standards according to GAAP.

1.2 "BENEFICIARY" means each designated person, or the estate of the deceased Executive, entitled to benefits, if any, upon the death of the Executive, determined according to Article 4.

1.3 "BENEFICIARY DESIGNATION FORM" means the form established from time to time by the Plan Administrator that the Executive completes, signs, and returns to the Plan Administrator to designate one or more Beneficiaries.

1.4 "CHANGE IN CONTROL" means a change in control as defined in Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, including -

(a) Change in ownership: a change in ownership of Intermountain Community Bancorp, an Idaho corporation of which the Bank is a wholly owned subsidiary, occurs on the date any one person or group accumulates ownership of Intermountain Community Bancorp stock constituting more than 50% of the total fair market value or total voting power of Intermountain Community Bancorp stock,

(b) Change in effective control: (i) any one person, or more than one person acting as a group, acquires within a 12-month period ownership of Intermountain Community Bancorp stock possessing 30% or more of the total voting power of Intermountain Community Bancorp stock, or (ii) a majority of Intermountain Community Bancorp's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed in advance by a majority of Intermountain Community Bancorp's board of directors, or

(c) Change in ownership of a substantial portion of assets: a change in

ownership of a substantial portion of Intermountain Community Bancorp's assets occurs if in a 12-month period any one person or more than one person acting as a group acquires from Intermountain Community Bancorp assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of Intermountain Community Bancorp's assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of Intermountain Community Bancorp's assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.

1.5 "CODE" means the Internal Revenue Code of 1986, as amended, and rules, regulations, and guidance of general application issued thereunder by the Department of the Treasury.

1.6 "DISABILITY" means, because of a medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for a continuous period of at least 12 months, (i) the Executive is unable to engage in any substantial gainful activity, or (ii) the Executive is receiving income replacement benefits for a period of at least three months under an accident and health plan of the employer. Medical determination of disability may be made either by the Social Security Administration or by the provider of an accident or health plan covering employees of the Bank. Upon request of the Plan Administrator, the Executive must submit proof to the Plan Administrator of the Social Security Administration's or provider's determination.

1.7 "EARLY TERMINATION" means the Executive's Separation from Service with the Bank before Normal Retirement Age for reasons other than death or Disability. Early Termination excludes a Separation from Service governed by section 2.4.

1.8 "EFFECTIVE DATE" means January 1, 2002.

1.9 "NORMAL RETIREMENT AGE" means the Executive's 60th birthday.

1.10 "PLAN ADMINISTRATOR" or "ADMINISTRATOR" means the plan administrator described in Article 7.

1.11 "PLAN YEAR" means a twelve-month period commencing on January 1 and ending on the last day of December of each year. The initial Plan Year shall commence on the Effective Date of this Agreement.

1.12 "SEPARATION FROM SERVICE" means the Executive's service as an executive and independent contractor to the Bank and any member of a controlled group, as defined in Code section 414, terminates for any reason, other than because of a leave of absence approved by the Bank or the Executive's death. For purposes of this Agreement, if there is a dispute about the employment status of the Executive or the date of the Executive's Separation from Service, the Bank shall have the sole and absolute right to decide the dispute unless a Change in Control shall have occurred.

1.13 "TERMINATION FOR CAUSE" and "CAUSE" mean the definition of termination for cause specified in any severance or employment agreement existing on the date hereof or hereafter entered into between the Executive and the Bank or between the Executive and Intermountain Community Bancorp. If the Executive is not a party to an effective severance or employment agreement defining termination for cause, Termination for Cause means termination of the Executive's employment for any of the following reasons -

(a) the Executive's gross negligence or gross neglect of duties or intentional and material failure to perform stated duties after written notice thereof, or

(b) disloyalty or dishonesty by the Executive in the performance of the Executive's duties, or a breach of the Executive's fiduciary duties for personal profit, in any case whether in the Executive's capacity as a director or

officer, or

(c) intentional wrongful damage by the Executive to the business or property of the Bank or its affiliates, including without limitation the reputation of the Bank, which in the judgment of the Bank causes material harm to the Bank or affiliates, or

(d) a willful violation by the Executive of any applicable law or significant policy of the Bank or an affiliate that, in the Bank's judgment, results in an adverse effect on the Bank or the affiliate, regardless of whether the violation leads to criminal prosecution or conviction. For purposes of this Agreement, applicable laws include any statute, rule, regulatory order, statement of policy, or final cease-and-desist order of any governmental agency or body having regulatory authority over the Bank, or

(e) the occurrence of any event that results in the Executive being excluded from coverage, or having coverage limited for the Executive as compared to other executives of the Bank, under the Bank's blanket bond or other fidelity or insurance policy covering its directors, officers, or employees, or

(f) the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or section 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), or

(g) conviction of the Executive for or plea of no contest to a felony or conviction of or plea of no contest to a misdemeanor involving moral turpitude, or the actual incarceration of the Executive for 45 consecutive days or more.

1.14 "VOLUNTARY TERMINATION WITH GOOD REASON" means a voluntary Separation from Service by the Executive within 24 months after a Change in Control if the following conditions (i) and (ii) are satisfied: (i) a voluntary Separation from Service by the Executive will be considered a Voluntary Termination for Good Reason if any of the following occur without the Executive's advance written consent -

1) a material diminution of the Executive's base salary,

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2) a material diminution of the Executive's authority, duties, or responsibilities,

3) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report, including a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the board of directors,

4) a material diminution in the budget over which the Executive retains authority,

5) a material change in the geographic location at which the Executive must perform services for the Bank, or

6) any other action or inaction that constitutes a material breach by the Bank of the agreement under which the Executive provides services to the Bank.

(ii) the Executive must give notice to the Bank of the existence of one or more of the conditions described in clause (i) within 90 days after the initial existence of the condition, and the Bank shall have 30 days thereafter to remedy the condition. In addition, the Executive's voluntary termination because of the existence of one or more of the conditions described in clause (i) must occur within 24 months after the earlier of the initial existence of the condition or the Change in Control.

ARTICLE 2  
LIFETIME BENEFITS

2.1 NORMAL RETIREMENT. Unless Separation from Service occurs before Normal Retirement Age, when the Executive attains Normal Retirement Age the Bank shall pay to the Executive the benefit described in this section 2.1 instead of any other benefit under this Agreement. If the Executive's Separation from Service thereafter is a Termination for Cause or if this Agreement terminates under Article 5, no further benefits shall be paid.

2.1.1 Amount of benefit. The annual benefit under this section 2.1 is \$147,657.

2.1.2 Payment of benefit. Beginning with the month immediately after the month in which the Executive attains Normal Retirement Age, the Bank shall pay the annual benefit to the Executive in 12 equal monthly installments on the first day of each month. The annual benefit shall be paid to the Executive for ten years.

2.2 EARLY TERMINATION. If Early Termination occurs before Normal Retirement Age but ten years or more after the Effective Date, the Bank shall pay to the Executive the benefit described in this section 2.2 instead of any other benefit under this Agreement. If Early Termination occurs within ten years after the Effective Date, no benefit shall be payable under this Agreement. Additionally, no benefits shall be payable under this Agreement if the Executive's employment is terminated under circumstances described in Article 5 of this Agreement. Neither the Bank nor the Executive shall be entitled to elect in the 24-month period after a Change in Control between the benefit under this section 2.2 versus the benefit under section 2.4. If the Executive's Separation from Service within 24 months after a Change in Control is an involuntary termination other than for Cause or a Voluntary Termination with Good Reason, no benefit shall be payable under this section 2.2 and the Executive shall instead be entitled to the benefit under section 2.4 (unless the Change in Control is the result of a written supervisory determination by the FDIC that the Bank should be sold) or, if the Executive first attained Normal Retirement Age, section 2.1.

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2.2.1 Amount of benefit. The annual benefit under this section 2.2 is calculated as the amount that fully amortizes the Accrual Balance existing at the end of the month immediately before the month in which Separation from Service occurs, amortizing that Accrual Balance over the ten-year period beginning with the Executive's Normal Retirement Age and taking into account interest at the discount rate or rates established by the Plan Administrator.

2.2.2 Payment of benefit. Beginning with the later of (i) the seventh month after the month in which the Executive's Separation from Service occurs, or (ii) the month immediately after the month in which the Executive attains Normal Retirement Age, the Bank shall pay the annual benefit to the Executive in 12 equal monthly installments on the first day of each month. The annual benefit shall be paid to the Executive for ten years.

2.3 DISABILITY. For Separation from Service because of Disability before Normal Retirement Age, the Bank shall pay to the Executive the benefit described in this section 2.3 instead of any other benefit under this Agreement.

2.3.1 Amount of benefit. The annual benefit under this section 2.3 is calculated as the amount that fully amortizes the Accrual Balance existing at the end of the month immediately before the month in which Separation from Service occurs, amortizing that Accrual Balance over the ten-year period beginning with the Executive's Normal Retirement Age and taking into account interest at the discount rate or rates established by the Plan Administrator.

2.3.2 Payment of benefit. Beginning with the later of (i) the seventh month after the month in which the Executive's Separation from Service occurs, or (ii) the month immediately after the month in which the Executive attains Normal Retirement Age, the Bank shall pay the annual benefit to the Executive in 12 equal monthly installments on the first day of each month. The annual benefit shall be paid to the Executive for ten years.

2.4 CHANGE-IN-CONTROL. If the Executive's Separation from Service is an involuntary termination without Cause or a Voluntary Termination with Good Reason, in either case within 24 months after a Change in Control, the Bank shall pay to the Executive the benefit described in this section 2.4 instead of any other benefit under this Agreement, unless the Change in Control is the result of a written supervisory determination by the FDIC that the Bank should be sold. No benefits shall be payable under this Agreement if the Executive's employment is terminated under circumstances described in Article 5 of this Agreement. Neither the Bank nor the Executive shall be entitled to elect in the 24-month period after a Change in Control between the benefit under this section 2.4 versus the Early Termination benefit under section 2.2. If the Executive's Separation from Service within 24 months after a Change in Control is an involuntary termination without Cause or a Voluntary Termination with Good Reason, no benefit shall be payable under section 2.2 and the Executive shall instead be entitled to the benefit under this section 2.4, unless the Change in Control is the result of a written supervisory determination by the FDIC that the Bank should be sold. But if the Executive shall have attained Normal Retirement Age when Separation from Service within 24 months after a Change in Control occurs, whether Separation from Service is voluntary or involuntary for any reason other than Termination for Cause, the Executive shall be entitled solely to the benefit provided by section 2.1, not this section 2.4.

2.4.1 Amount of benefit. The benefit under this section 2.4 is the Normal Retirement Age Accrual Balance required by section 2.1, discounting the Normal Retirement Age Accrual Balance to present value using a discount rate selected by the Plan Administrator, but the discount rate selected by the Plan Administrator shall not exceed the discount rate employed at the time of the Change in Control for purposes of calculating the Accrual Balance.

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2.4.2 Payment of benefit. The Bank shall pay the benefit under this section 2.4 to the Executive in a single lump sum on the first day of the seventh month after the month in which the Executive's Separation from Service occurs.

2.5 LUMP-SUM PAYOUT OF REMAINING NORMAL RETIREMENT BENEFIT, EARLY TERMINATION BENEFIT, OR DISABILITY BENEFIT WHEN A CHANGE IN CONTROL OCCURS. If a Change in Control occurs while the Executive is receiving the Normal Retirement Age benefit under section 2.1, the Bank shall pay the remaining salary continuation benefits to the Executive in a single lump sum on the date of the Change in Control. If a Change in Control occurs after Separation from Service but while the Executive is receiving or is entitled at Normal Retirement Age to receive the Early Termination benefit under section 2.2 or the Disability benefit under section 2.3, the Bank shall pay the remaining salary continuation benefits to the Executive in a single lump sum on the later of (i) the date of the Change in Control or (ii) the first day of the seventh month after the month in which the Executive's Separation from Service occurs. The lump-sum payment due to the Executive as a result of a Change in Control shall be an amount equal to the Accrual Balance amount corresponding to the particular benefit when the Change in Control occurs.

2.6 ANNUAL BENEFIT STATEMENT. Within 120 days after the end of each Plan Year the Plan Administrator shall provide or cause to be provided to the Executive an annual benefit statement showing benefits payable or potentially payable to the Executive under this Agreement. Each annual benefit statement shall supersede the previous year's annual benefit statement. If there is a contradiction between this Agreement and the annual benefit statement concerning

the amount of a particular benefit payable or potentially payable to the Executive under sections 2.2, 2.3, or 2.4 hereof, the amount of the benefit determined under the Agreement shall control.

2.7 SAVINGS CLAUSE RELATING TO COMPLIANCE WITH CODE SECTION 409A. Despite any contrary provision of this Agreement, if when the Executive's employment terminates the Executive is a specified employee, as defined in Code section 409A, and if any payments under Article 2 of this Agreement will result in additional tax or interest to the Executive because of section 409A, the Executive shall not be entitled to the payments under Article 2 until the earliest of (i) the date that is at least six months after termination of the Executive's employment for reasons other than the Executive's death, (ii) the date of the Executive's death, or (iii) any earlier date that does not result in additional tax or interest to the Executive under section 409A. If any provision of this Agreement would subject the Executive to additional tax or interest under section 409A, the Bank shall reform the provision. However, the Bank shall maintain to the maximum extent practicable the original intent of the applicable provision without subjecting the Executive to additional tax or interest, and the Bank shall not be required to incur any additional compensation expense as a result of the reformed provision.

2.8 ONE BENEFIT ONLY. Despite anything to the contrary in this Agreement, the Executive and Beneficiary are entitled to one benefit only under this Agreement, which shall be determined by the first event to occur that is dealt with by this Agreement. Except as provided in section 2.5 or Article 3, subsequent occurrence of events dealt with by this Agreement shall not entitle the Executive or Beneficiary to other or additional benefits under this Agreement.

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### ARTICLE 3 DEATH BENEFITS

3.1 DEATH BEFORE SEPARATION FROM SERVICE AND NORMAL RETIREMENT AGE. If the Executive dies in active service to the Bank before Normal Retirement Age, at the Executive's death the Executive's Beneficiary shall be entitled solely to the benefit, if any, provided by the Split Dollar Agreement and Endorsement attached to this Agreement as Addendum A instead of any benefit payable under this Agreement. If the Executive dies after Separation from Service or after attaining Normal Retirement Age, the Executive's Beneficiary shall be entitled to no benefits under the Split Dollar Agreement and Endorsement attached to this Agreement as Addendum A.

3.2 DEATH AFTER SEPARATION FROM SERVICE OR NORMAL RETIREMENT AGE. If the Executive dies after Normal Retirement Age or after Separation from Service occurring at any age, at the Executive's death the Executive's Beneficiary shall be entitled to the benefits, if any, that would have been payable to the Executive under Article 2 had the Executive survived. The benefits shall be payable to the Executive's Beneficiary in the same amounts they would have been paid to the Executive had the Executive survived, except that payments shall commence in the month after the Executive's death.

3.3 CHANGE-IN-CONTROL PAYOUT OF BENEFITS UNDER SECTION 3.2. If a Change in Control occurs while the Executive's Beneficiary is receiving the benefit provided by section 3.2, the Bank shall pay the remaining benefits to the Executive's Beneficiary in a single lump sum within three days after the Change in Control. The lump-sum payment shall be an amount equal to the Accrual Balance amount corresponding to the benefit being paid.

### ARTICLE 4 BENEFICIARIES

4.1 BENEFICIARY DESIGNATIONS. The Executive shall have the right to designate at any time a Beneficiary to receive any benefits payable under this Agreement at the Executive's death. The Beneficiary designated under this Agreement may be the same as or different from the beneficiary designation under



any other benefit plan of the Bank in which the Executive participates.

4.2 BENEFICIARY DESIGNATION: CHANGE. The Executive shall designate a Beneficiary by completing and signing the Beneficiary Designation Form and delivering it to the Plan Administrator or its designated agent. The Executive's Beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Executive or if the Executive names a spouse as Beneficiary and the marriage is subsequently dissolved. The Executive shall have the right to change a Beneficiary by completing, signing, and otherwise complying with the terms of the Beneficiary Designation Form and the Plan Administrator's rules and procedures, as in effect from time to time. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall be entitled to rely on the last Beneficiary Designation Form filed by the Executive and accepted by the Plan Administrator before the Executive's death.

4.3 ACKNOWLEDGMENT. No designation or change in designation of a Beneficiary shall be effective until received, accepted, and acknowledged in writing by the Plan Administrator or its designated agent.

4.4 NO BENEFICIARY DESIGNATION. If the Executive dies without a valid beneficiary designation, or if all designated Beneficiaries predecease the Executive, then the Executive's spouse shall be the designated Beneficiary. If the Executive has no surviving spouse, the benefits shall be made to the personal representative of the Executive's estate.

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4.5 FACILITY OF PAYMENT. If a benefit is payable to a minor, to a person declared incapacitated, or to a person incapable of handling the disposition of his or her property, the Bank may pay the benefit to the guardian, legal representative, or person having the care or custody of the minor, incapacitated person, or incapable person. The Bank may require proof of incapacity, minority, or guardianship as it may deem appropriate before distribution of the benefit. Distribution shall completely discharge the Bank from all liability for the benefit.

## ARTICLE 5 GENERAL LIMITATIONS

5.1 TERMINATION FOR CAUSE. Despite any contrary provision of this Agreement, the Bank shall not pay any benefit under this Agreement and this Agreement shall terminate if Separation from Service is a Termination for Cause or if Separation from Service is an Early Termination occurring within ten years after the Effective Date. Likewise, the Beneficiary shall be entitled to no benefits under the Split Dollar Agreement attached to this Agreement as Addendum A and the Split Dollar Agreement also shall terminate if Separation from Service is a Termination for Cause or if Separation from Service is an Early Termination occurring within ten years after the Effective Date.

5.2 MISSTATEMENT. The Bank shall not pay any benefit under this Agreement and the Beneficiary shall be entitled to no benefits under the Split Dollar Agreement attached as Addendum A if the Executive makes any material misstatement of fact on any application or resume provided to the Bank or on any application for benefits provided by the Bank.

5.3 REMOVAL. If the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or (g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), all obligations of the Bank under this Agreement shall terminate as of the effective date of the order, and the Split Dollar Agreement also shall terminate as of the effective date of the order.

5.4 DEFAULT. Despite any contrary provision of this Agreement, if the Bank is in "default" or "in danger of default," as those terms are defined in section 3(x) of the Federal Deposit Insurance Act, 12 U.S.C. 1813(x), all obligations under this Agreement shall terminate.

5.5 FDIC OPEN-BANK ASSISTANCE. All obligations under this Agreement shall terminate, except to the extent determined that continuation of the contract is necessary for the continued operation of the Bank, when the Federal Deposit Insurance Corporation enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Federal Deposit Insurance Act section 13(c). 12 U.S.C. 1823(c). Rights of the parties that have already vested shall not be affected by such action, however.

ARTICLE 6  
CLAIMS AND REVIEW PROCEDURES

6.1 CLAIMS PROCEDURE. A person or beneficiary ("claimant") who has not received benefits under this Agreement that he or she believes should be paid shall make a claim for such benefits as follows -

6.1.1 Initiation - written claim. The claimant initiates a claim by submitting to the Administrator a written claim for the benefits. If the claim relates to the contents of a notice received by the

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claimant, the claim must be made within 60 days after the notice was received by the claimant. All other claims must be made within 180 days after the date of the event that caused the claim to arise. The claim must state with particularity the determination desired by the claimant.

6.1.2 Timing of Bank response. The Bank shall respond to the claimant within 90 days after receiving the claim. If the Bank determines that special circumstances require additional time for processing the claim, the Bank may extend the response period by an additional 90 days by notifying the claimant in writing before the end of the initial 90-day period that an additional period is required. The notice of extension must state the special circumstances and the date by which the Bank expects to render its decision.

6.1.3 Notice of decision. If the Bank denies part or all of the claim, the Bank shall notify the claimant in writing of the denial. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth -

- 6.1.3.1 the specific reasons for the denial,
- 6.1.3.2 a reference to the specific provisions of the Agreement on which the denial is based,
- 6.1.3.3 a description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed,
- 6.1.3.4 an explanation of the Agreement's review procedures and the time limits applicable to such procedures, and
- 6.1.3.5 a statement of the claimant's right to bring a civil action under ERISA section 502(a) following an adverse benefit determination on review.

6.2 REVIEW PROCEDURE. If the Bank denies part or all of the claim, the claimant shall have the opportunity for a full and fair review by the Bank of the denial, as follows -

6.2.1 Initiation - written request. To initiate the review, the claimant, within 60 days after receiving the Bank's notice of denial, must file with the Bank a written request for review.

6.2.2 Additional submissions - information access. The claimant shall then have the opportunity to submit written comments, documents, records, and

other information relating to the claim. The Bank shall also provide the claimant, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

6.2.3 Considerations on review. In considering the review, the Bank shall take into account all materials and information the claimant submits relating to the claim, without regard to whether the information was submitted or considered in the initial benefit determination.

6.2.4 Timing of Bank response. The Bank shall respond in writing to the claimant within 60 days after receiving the request for review. If the Bank determines that special circumstances require additional time for processing the claim, the Bank may extend the response period by an additional 60 days by notifying the claimant in writing before the end of the initial 60-day period that an additional period is required. The notice of extension must state the special circumstances and the date by which the Bank expects to render its decision.

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6.2.5 Notice of decision. The Bank shall notify the claimant in writing of its decision on review. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth -

- 6.2.5.1 the specific reason for the denial,
- 6.2.5.2 a reference to the specific provisions of the Agreement on which the denial is based,
- 6.2.5.3 a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits, and
- 6.2.5.4 a statement of the claimant's right to bring a civil action under ERISA section 502(a).

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#### ARTICLE 7 ADMINISTRATION OF AGREEMENT

7.1 PLAN ADMINISTRATOR DUTIES. This Agreement shall be administered by a Plan Administrator consisting of the board or such committee or person(s) as the board shall appoint. The Executive may be a member of the Plan Administrator. The Plan Administrator shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Agreement and (ii) decide or resolve any and all questions, including interpretations of this Agreement, as may arise in connection with the Agreement.

7.2 AGENTS. In the administration of this Agreement, the Plan Administrator may employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel, who may be counsel to the Bank.

7.3 BINDING EFFECT OF DECISIONS. The decision or action of the Plan Administrator concerning any question arising out of the administration, interpretation, and application of the Agreement and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Agreement. No Executive or Beneficiary shall be deemed to have any right, vested or non-vested, regarding the continued use of any previously adopted assumptions, including but not limited to the discount

rate and calculation method employed in the determination of the Accrual Balance.

7.4 INDEMNITY OF PLAN ADMINISTRATOR. The Bank shall indemnify and hold harmless the members of the Plan Administrator against any and all claims, losses, damages, expenses, or liabilities arising from any action or failure to act with respect to this Agreement, except in the case of willful misconduct by the Plan Administrator or any of its members.

7.5 BANK INFORMATION. To enable the Plan Administrator to perform its functions, the Bank shall supply full and timely information to the Plan Administrator on all matters relating to the date and circumstances of the retirement, Disability, death, or Separation from Service of the Executive, and such other pertinent information as the Plan Administrator may reasonably require.

#### ARTICLE 8 MISCELLANEOUS

8.1 AMENDMENTS AND TERMINATION. Subject to section 8.15 of this Agreement, this Agreement may be amended solely by a written agreement signed by the Bank and by the Executive, and except for termination occurring under Article 5 this Agreement may be terminated solely by a written agreement signed by the Bank and by the Executive.

8.2 BINDING EFFECT. This Agreement shall bind the Executive, the Bank, and their beneficiaries, survivors, executors, successors, administrators, and transferees.

8.3 NO GUARANTEE OF EMPLOYMENT. This Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Bank nor does it interfere with the Bank's right to discharge the Executive. It also does not require the Executive to remain an employee or interfere with the Executive's right to terminate employment at any time.

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8.4 NON-TRANSFERABILITY. Benefits under this Agreement may not be sold, transferred, assigned, pledged, attached, or encumbered.

8.5 SUCCESSORS; BINDING AGREEMENT. By an assumption agreement in form and substance satisfactory to the Executive, the Bank shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Bank to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform this Agreement had no succession occurred.

8.6 TAX WITHHOLDING. The Bank shall withhold any taxes that are required to be withheld from the benefits provided under this Agreement.

8.7 APPLICABLE LAW. Except to the extent preempted by the laws of the United States of America, the validity, interpretation, construction, and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Idaho, without giving effect to the principles of conflict of laws of such state.

8.8 UNFUNDED ARRANGEMENT. The Executive and the Beneficiary are general unsecured creditors of the Bank for the payment of benefits under this Agreement. The benefits represent the mere promise by the Bank to pay benefits. The rights to benefits are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors. Any insurance on the Executive's life is a general asset of the Bank to which the Executive and Beneficiary have no preferred or secured claim.

8.9 SEVERABILITY. If any provision of this Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement, and each such

other provision shall continue in full force and effect to the full extent consistent with law. If any provision of this Agreement is held invalid in part, such invalidity shall not affect the remainder of the provision, and the remainder of such provision together with all other provisions of this Agreement shall continue in full force and effect to the full extent consistent with law.

8.10 HEADINGS. The headings of sections herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any provision of this Agreement.

8.11 NOTICES. All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed, certified or registered mail, return receipt requested, with postage prepaid. Unless otherwise changed by notice, notice shall be properly addressed to the Executive if addressed to the address of the Executive on the books and records of the Bank at the time of the delivery of such notice, and properly addressed to the Bank if addressed to the Board of Directors, Panhandle State Bank, Third and Oak Streets, Sandpoint, Idaho 83864.

8.12 ENTIRE AGREEMENT. This Agreement and the Split Dollar Agreement attached as Addendum A constitute the entire agreement between the Bank and the Executive concerning the subject matter. No rights are granted to the Executive under this Agreement other than those specifically set forth. The Executive acknowledges and agrees that this Agreement satisfies in full Intermountain Community Bancorp's and the Bank's obligation to provide a salary continuation plan for the benefit of the Executive, which obligation is stated in section 7 of the Executive Employment Agreement dated as of December 17, 2003 by and among the Executive, Intermountain Community Bancorp, and the Bank, as the same may be amended.

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8.13 PAYMENT OF LEGAL FEES. The Bank is aware that after a Change in Control management of the Bank could cause or attempt to cause the Bank to refuse to comply with its obligations under this Agreement, or institute or cause or attempt to cause the Bank to institute litigation seeking to have this Agreement declared unenforceable, or take or attempt to take other action to deny the Executive the benefits intended under this Agreement. In these circumstances the purpose of this Agreement would be frustrated. The Bank desires that the Executive not be required to incur the expenses associated with the enforcement of rights under this Agreement by litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. The Bank desires that the Executive not be required to negotiate any settlement of rights under threat of incurring expenses. Accordingly, if after a Change in Control (i) it appears to the Executive that the Bank has failed to comply with any of its obligations under this Agreement, or (ii) the Bank or any other person takes any action to declare this Agreement void or unenforceable, or institutes any litigation or other legal action designed to deny, diminish, or to recover from the Executive the benefits intended to be provided to the Executive hereunder, the Bank irrevocably authorizes the Executive from time to time to retain counsel of the Executive's choice, at the Bank's expense as provided in this section 8.13, to represent the Executive in any litigation or other legal action, whether by or against the Bank or any director, officer, stockholder, or other person affiliated with the Bank, in any jurisdiction. Despite any existing or previous attorney-client relationship between the Bank and any counsel chosen by the Executive under this section 8.13, the Bank irrevocably consents to the Executive entering into an attorney-client relationship with that counsel, and the Bank and the Executive agree that a confidential relationship shall exist between the Executive and that counsel. The fees and expenses of counsel selected from time to time by the Executive as herein above provided shall be paid or reimbursed to the Executive by the Bank on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by such counsel in accordance with such counsel's customary practices, up to a maximum aggregate amount of \$500,000, whether suit be brought or not, and whether or not incurred in trial, bankruptcy, or appellate proceedings. The Bank's obligation to pay the Executive's legal fees provided by this section 8.13 operates

separately from and in addition to any legal fee reimbursement obligation the Bank or Intermountain Community Bancorp may have with the Executive under any separate employment, severance, or other agreement. Despite anything in this Agreement to the contrary however, the Bank shall not be required to pay or reimburse the Executive's legal expenses if doing so would violate section 18(k) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)] and Rule 359.3 of the Federal Deposit Insurance Corporation [12 CFR 359.3].

8.14 EXCISE TAX UNDER INTERNAL REVENUE CODE SECTIONS 280G AND 4999. (a) Partial reimbursement of the Excise Tax. If a Change in Control occurs the Executive may become entitled to acceleration of benefits under this Agreement or under another plan or agreement of or with the Bank or Intermountain Community Bancorp, including accelerated vesting of stock options and acceleration of benefits under any other benefit, compensation, or incentive plan or arrangement with the Bank or Intermountain Community Bancorp (collectively, the "Total Benefits"). If a Change in Control occurs, Intermountain Community Bancorp and the Bank shall cause the certified public accounting firm retained by Intermountain Community Bancorp as of the date immediately before the Change in Control (the "Accounting Firm") to calculate the Total Benefits and any excise tax payable by the Executive under Code sections 280G and 4999 based upon the Total Benefits. If the Accounting Firm determines that an excise tax is payable, at the same time the Bank pays the Change in Control benefit under section 2.4 of this Agreement the Bank shall also pay or cause to be paid to the Executive an amount in cash equal to the excise tax calculated by the Accounting Firm (the "Excise Tax"). The Executive acknowledges and agrees that this section 8.14 provides for partial reimbursement only of the final excise tax that may be payable by him, and that additional unreimbursed excise taxes may be payable after taking into account the reimbursement payment provided under this section 8.14. The partial

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reimbursement of the excise tax under this section 8.14 shall be made in addition to the amount set forth in section 2.4.

(b) Calculating the Excise Tax. For purposes of determining whether any of the Total Benefits will be subject to the Excise Tax and for purposes of determining the amount of the Excise Tax,

- 1) Determination of "parachute payments" subject to the Excise Tax: any other payments or benefits received or to be received by the Executive in connection with a Change in Control or the Executive's Separation from Service (whether under the terms of this Agreement or any other agreement, stock option plan or any other benefit plan or arrangement with the Bank or Intermountain Community Bancorp, any person whose actions result in a Change in Control or any person affiliated with the Bank, Intermountain Community Bancorp, or such person) shall be treated as "parachute payments" within the meaning of Code section 280G(b)(2), and all "excess parachute payments" within the meaning of section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of the Accounting Firm such other payments or benefits do not constitute (in whole or in part) parachute payments, or such excess parachute payments represent (in whole or in part) reasonable compensation for services actually rendered within the meaning of Code section 280G(b)(4) in excess of the base amount (as defined in Code section 280G(b)(3)), or are otherwise not subject to the Excise Tax,
- 2) Calculation of benefits subject to the Excise Tax: the amount of the Total Benefits that shall be treated as subject to the Excise Tax shall be equal to the lesser of (i) the total amount of the Total Benefits reduced by the amount of such Total Benefits that in the opinion of the Accounting Firm are not parachute payments, or (ii) the amount of excess parachute payments within the meaning of section 280G(b)(1) (after applying clause (1), above), and
- 3) Value of noncash benefits and deferred payments: the value of any

noncash benefits or any deferred payment or benefit shall be determined by the Accounting Firm in accordance with the principles of Code sections 280G(d)(3) and (4).

(c) Assumed marginal income tax rate. For purposes of determining the amount of the partial Excise Tax reimbursement payment to be made under this section 8.14, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the partial Excise Tax reimbursement under this section 8.14 is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the date of Separation from Service, net of the reduction in federal income taxes that can be obtained from deduction of such state and local taxes (calculated by assuming that any reduction under Code section 68 in the amount of itemized deductions allowable to the Executive applies first to reduce the amount of such state and local income taxes that would otherwise be deductible by the Executive, and applicable federal FICA and Medicare withholding taxes).

(d) Accounting firm's determinations are final and binding. All determinations made by the Accounting Firm under this section 8.14 shall be final and binding on the Bank, Intermountain Community Bancorp, and the Executive. All determinations required to be made under this section 8.14 - including the assumptions used to calculate Total Benefits and the Excise Tax - shall be made by the Accounting Firm, which shall provide detailed supporting calculations both to the Bank and the Executive.

8.15 TERMINATION OR MODIFICATION OF AGREEMENT BECAUSE OF CHANGES IN TAX STATUTES, RULES, OR REGULATIONS. The Bank is entering into this Agreement on the assumption that certain existing tax statutes, rules, and regulations will continue in effect in their current form. If that assumption materially changes and the change has a material detrimental effect on this Agreement, the Bank reserves the right to terminate or modify this Agreement accordingly, subject to obtaining the written consent of the Executive, which shall not be unreasonably withheld. This section 8.15 shall become null and void effective immediately upon a Change in Control.

IN WITNESS WHEREOF, the Executive and a duly authorized Bank officer have executed this Amended Salary Continuation Agreement as of the date first written above.

THE EXECUTIVE:

THE BANK:  
PANHANDLE STATE BANK

-----  
Curt Hecker

By: -----  
Its: -----

Despite any existing or previous attorney-client relationship between Intermountain Community Bancorp and any counsel chosen by the Executive under section 8.13, Intermountain Community Bancorp irrevocably consents to the Executive's entering into an attorney-client relationship with that counsel, and Intermountain Community Bancorp agrees that a confidential relationship shall exist between the Executive and that counsel.

INTERMOUNTAIN COMMUNITY BANCORP  
By: -----  
Its: -----

BENEFICIARY DESIGNATION  
 PANHANDLE STATE BANK  
 AMENDED SALARY CONTINUATION AGREEMENT

I, Curt Hecker, designate the following as beneficiary of any death benefits under this Amended Salary Continuation Agreement -

Primary:

\_\_\_\_\_

Contingent:

\_\_\_\_\_

NOTE: TO NAME A TRUST AS BENEFICIARY, PLEASE PROVIDE THE NAME OF THE TRUSTEE(S) AND THE EXACT NAME AND DATE OF THE TRUST AGREEMENT.

I understand that I may change these beneficiary designations by filing a new written designation with the Bank. I further understand that the designations will be automatically revoked if the beneficiary predeceases me, or if I have named my spouse as beneficiary and our marriage is subsequently dissolved.

Signature: /s/

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 Curt Hecker

Date: \_\_\_\_\_, 2007

Accepted by the Bank this \_\_\_\_\_ day of \_\_\_\_\_, 2007

By:

/s/ \_\_\_\_\_

Print Name:

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Title:

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SCHEDULE A  
 PANHANDLE STATE BANK  
 SALARY CONTINUATION AGREEMENT  
 CURT HECKER

Plan year	Plan year ending December 31,	Age at Plan year end	Accrual balance (1)	Vested accrual balance	Early Termination annual benefit payable at Normal Retirement Age (2)	Disability annual benefit payable at Normal Retirement Age	Change Control payak lump
1	2002	42	\$ 17,280	\$ 0	\$ 0	\$ 7,771	\$ 3
2	2003	43	\$ 36,978	\$ 0	\$ 0	\$ 15,543	\$ 3
3	2004	44	\$ 59,350	\$ 0	\$ 0	\$ 23,314	\$ 3



4	2005	45	\$ 84,673	\$ 0	\$ 0	\$ 31,086	\$ 4
5	2006	46	\$ 113,250	\$ 0	\$ 0	\$ 38,857	\$ 4
6	2007	47	\$ 145,413	\$ 0	\$ 0	\$ 46,628	\$ 4
7	2008	48	\$ 181,524	\$ 0	\$ 0	\$ 54,400	\$ 4
8	2009	49	\$ 221,978	\$ 0	\$ 0	\$ 62,171	\$ 5
9	2010	50	\$ 267,206	\$ 0	\$ 0	\$ 69,943	\$ 5
10	2011	51	\$ 317,678	\$ 0	\$ 0	\$ 77,714	\$ 6
11	2012	52	\$ 373,907	\$ 373,907	\$ 85,485	\$ 85,485	\$ 6
12	2013	53	\$ 436,452	\$ 436,452	\$ 93,257	\$ 93,257	\$ 6
13	2014	54	\$ 505,921	\$ 505,921	\$ 101,028	\$ 101,028	\$ 7
14	2015	55	\$ 582,976	\$ 582,976	\$ 108,800	\$ 108,800	\$ 7
15	2016	56	\$ 668,340	\$ 668,340	\$ 116,571	\$ 116,571	\$ 8
16	2017	57	\$ 762,799	\$ 762,799	\$ 124,342	\$ 124,342	\$ 9
17	2018	58	\$ 867,207	\$ 867,207	\$ 132,114	\$ 132,114	\$ 9
18	2019	59	\$ 982,495	\$ 982,495	\$ 139,885	\$ 139,885	\$ 1,0
19	2020	60	\$ 1,109,673	\$ 1,109,673	\$ 147,657	\$ 147,657	\$ 1,1
20	2021	61	\$ 1,029,358	\$ 1,029,358			
21	2022	62	\$ 943,421	\$ 943,421			

Plan year	Plan year ending December 31,	Age at Plan year end	Accrual balance (1)	Vested accrual balance	Early Termination annual benefit payable at Normal Retirement Age (2)	Disability annual benefit payable at Normal Retirement Age	Change Control payak lump
22	2023	63	\$ 851,468	\$ 851,468			
23	2024	64	\$ 753,078	\$ 753,078			
24	2025	65	\$ 647,801	\$ 647,801			
25	2026	66	\$ 535,155	\$ 535,155			
26	2027	67	\$ 414,623	\$ 414,623			
27	2028	68	\$ 285,654	\$ 285,654			
28	2029	69	\$ 147,657	\$ 147,657			
29	2030	70	\$ 0	\$ 0			

(1) Calculations are approximations. Benefit calculations are

based on prior year-end accrual balances. The accrual balance reflects payment at the beginning of each month during retirement, beginning in October 2020.

(2) Early termination benefits are not payable if Termination of Employment occurs within 10 years after the Effective Date of the Agreement.

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ADDENDUM A  
PANHANDLE STATE BANK  
SPLIT DOLLAR AGREEMENT

THIS SPLIT DOLLAR AGREEMENT is entered into as of this \_\_\_\_\_ day of \_\_\_\_\_, 2003, by and between Panhandle State Bank, an Idaho-chartered, FDIC-insured bank with its main office in Sandpoint, Idaho (the "Bank") and Curt Hecker, Chief Executive Officer of the Bank (the "Executive"). This Split Dollar Agreement shall append the Split Dollar Policy Endorsement entered into on even date herewith, or as subsequently amended, by and between the aforementioned parties.

To encourage the Executive to remain an employee of the Bank, the Bank is willing to divide the death proceeds of a life insurance policy on the Executive's life to be effective until the Executive's Normal Retirement Age of 60. The Bank will pay life insurance premiums from its general assets.

ARTICLE 1  
GENERAL DEFINITIONS

Capitalized terms not otherwise defined in this Split Dollar Agreement are used herein as defined in the Salary Continuation Agreement dated as of the date of this Split Dollar Agreement between the Bank and the Executive. The following terms shall have the meanings specified:

- 1.1 Administrator means the administrator described in Article 7.
- 1.2 Executive's Interest means the benefit set forth in Section 2.2.
- 1.3 Insured means the Executive.
- 1.4 Insurer means each life insurance carrier for which there is a Split Dollar Policy Endorsement attached to this Split Dollar Agreement.
- 1.5 Net Death Proceeds means the total death proceeds of the Policy minus the cash surrender value.
- 1.6 Policy means the specific life insurance policy or policies issued by the Insurer(s).
- 1.7 Split Dollar Policy Endorsement means the form required by the Administrator or the Insurer to indicate the Executive's interest, if any, in a Policy on the Executive's life.

ARTICLE 2  
POLICY OWNERSHIP/INTERESTS

2.1 Bank Ownership. The Bank is the sole owner of the Policy and shall have the right to exercise all incidents of ownership. The Bank shall be the beneficiary of any death proceeds remaining after the Executive's interest has been paid under Section 2.2 of this Split Dollar Agreement.

2.2 Executive's Interest. The Executive shall have the right to designate the beneficiary(ies) of the Executive's Interest, which shall be an amount equal to \$1,109,673 of the Net Death Proceeds. The Executive shall also have the right to elect and change settlement options specified in the Policy that may be permitted. However, the Executive, the Executive's transferee, or

the Executive's beneficiary(ies) shall have no rights or interests in the Policy for that portion of the death proceeds designated in this Section 2.2 if the Executive is not in the full-time employment of the Bank at the time of death, except for reason of a leave of absence approved by the Bank, or if benefits under the Salary Continuation Agreement of even date herewith are denied under Article 5 of that Salary Continuation Agreement.

2.3 Option to Purchase. The Bank shall not sell, surrender, or transfer ownership of the Policy while this Split Dollar Agreement is in effect without first giving the Executive or the Executive's transferee a right of first refusal to purchase the Policy for the Policy's interpolated terminal reserve value. The right of first refusal to

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purchase the Policy must be exercised within 60 days from the date the Bank gives written notice of the Bank's intention to sell, surrender or transfer ownership of the Policy. This provision shall not impair the right of the Bank to terminate this Split Dollar Agreement.

2.4 Comparable Coverage. Upon execution of this Split Dollar Agreement, the Bank shall maintain the Policy in full force and effect, and the Bank shall not amend, terminate, or otherwise abrogate the Executive's interest in the Policy unless the Bank (a) replaces the Policy with a comparable insurance policy to cover the benefit provided under this Split Dollar Agreement and (b) executes a new Split Dollar Agreement and Endorsement for the comparable insurance policy. The Policy or any comparable policy shall be subject to the claims of the Bank's creditors.

#### ARTICLE 3 PREMIUMS

3.1 Premium Payment. The Bank shall pay any premiums due on the Policy.

3.2 Imputed Income. The Bank shall impute income to the Executive in an amount equal to (a) the current term rate for the Executive's age, multiplied by (b) the net death benefit payable to the Executive's beneficiary(ies). The "current term rate" is the minimum amount required to be imputed under Revenue Rulings 64-328 and 66-110, or any subsequent applicable authority.

#### ARTICLE 4 ASSIGNMENT

The Executive may assign without consideration all interests in the Policy and in this Split Dollar Agreement to any person, entity, or trust. If the Executive transfers all of the Executive's interest in the Policy, then all of the Executive's interest in the Policy and in the Split Dollar Agreement shall be vested in the Executive's transferee, who shall be substituted as a party hereunder, and the Executive shall have no further interest in the Policy or in this Split Dollar Agreement.

#### ARTICLE 5 INSURER

The Insurer shall be bound only by the terms of the Policy. Any payments the Insurer makes or actions it takes in accordance with the Policy shall fully discharge it from all claims, suits, and demands of all entities or persons. The Insurer shall not be bound by or be deemed to have notice of the provisions of this Split Dollar Agreement.

#### ARTICLE 6 CLAIMS PROCEDURE

6.1 Claims Procedure. A person or beneficiary (a "claimant") who has not received benefits under the Split Dollar Agreement that he or she

believes should be paid shall make a claim for such benefits as follows:

- 6.1.1 Initiation - Written Claim. The claimant initiates a claim by submitting to the Bank a written claim for the benefits.
- 6.1.2 Timing of Bank Response. The Bank shall respond to such claimant within 90 days after receiving the claim. If the Bank determines that special circumstances require additional time for processing the claim, the Bank can extend the response period by an additional 90 days by notifying the claimant in writing, prior to the end of the initial 90-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Bank expects to render its decision.

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- 6.1.3 Notice of Decision. If the Bank denies part or all of the claim, the Bank shall notify the claimant in writing of such denial. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:
  - 6.1.3.1 The specific reasons for the denial,
  - 6.1.3.2 A reference to the specific provisions of the Split Dollar Agreement on which the denial is based,
  - 6.1.3.3 A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed,
  - 6.1.3.4 An explanation of the Split Dollar Agreement's review procedures and the time limits applicable to such procedures, and
  - 6.1.3.5 A statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

6.2 Review Procedure. If the Bank denies part or all of the claim, the claimant shall have the opportunity for a full and fair review by the Bank of the denial, as follows:

- 6.2.1 Initiation - Written Request. To initiate the review, the claimant, within 60 days after receiving the Bank's notice of denial, must file with the Bank a written request for review.
- 6.2.2 Additional Submissions - Information Access. The claimant shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Bank shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.
- 6.2.3 Considerations on Review. In considering the review, the Bank shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.
- 6.2.4 Timing of Bank Response. The Bank shall respond in writing to such claimant within 60 days after receiving the request for review. If the Bank determines that special circumstances require additional time for processing the claim, the Bank can

extend the response period by an additional 60 days by notifying the claimant in writing, prior to the end of the initial 60-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Bank expects to render its decision.

6.2.5 Notice of Decision. The Bank shall notify the claimant in writing of its decision on review. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

6.2.5.1 The specific reason for the denial,

6.2.5.2 A reference to the specific provisions of the Split Dollar Agreement on which the denial is based,

6.2.5.3 A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits, and

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6.2.5.4 A statement of the claimant's right to bring a civil action under ERISA Section 502(a).

#### ARTICLE 7 ADMINISTRATION OF SPLIT DOLLAR AGREEMENT

7.1 Administrator Duties. This Split Dollar Agreement shall be administered by an Administrator, which shall consist of the board or such committee as the board shall appoint. The Executive may be a member of the Administrator. The Administrator shall also have the discretion and authority to (a) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Split Dollar Agreement and (b) decide or resolve any and all questions, including interpretations of this Split Dollar Agreement, as may arise in connection with the Split Dollar Agreement.

7.2 Agents. In the administration of this Split Dollar Agreement, the Administrator may employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel, who may be counsel to the Bank.

7.3 Binding Effect of Decisions. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation, and application of this Split Dollar Agreement and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Split Dollar Agreement.

7.4 Indemnity of Administrator. The Bank shall indemnify and hold harmless the members of the Administrator against any and all claims, losses, damages, expenses, or liabilities arising from any action or failure to act with respect to this Split Dollar Agreement, except in the case of willful misconduct by the Administrator or any of its members.

7.5 Information. To enable the Administrator to perform its functions, the Bank shall supply full and timely information to the Administrator on all matters relating to the date and circumstances of the retirement, death, or Termination of Employment of the Executive and such other pertinent information as the Administrator may reasonably require.

#### ARTICLE 8 MISCELLANEOUS

8.1 Amendment and Termination. Subject to Section 8.11 of this Split Dollar Agreement, this Split Dollar Agreement may be amended or terminated solely by a writing signed by the Bank and the Executive. However, this Split Dollar Agreement will terminate automatically and the Executive's interest shall be forfeited if benefits under the Salary Continuation Agreement are neither paid nor payable because of termination under Article 5 of the Salary Continuation Agreement. This Split Dollar Agreement shall also terminate upon the occurrence of any one of the following:

- (a) Surrender, lapse, or other termination of the Policy by the Bank, or
- (b) Distribution of the death benefit proceeds in accordance with Section 2.2 above.

8.2 Binding Effect. This Split Dollar Agreement shall bind the Executive and the Bank and their beneficiaries, survivors, executors, administrators, transferees, and any Policy beneficiary.

8.3 No Guarantee of Employment. This Split Dollar Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Bank, nor does it interfere with the Bank's right to discharge the Executive. It also does not require the Executive to remain an employee nor interfere with the Executive's right to terminate employment at any time.

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8.4 Successors; Binding Agreement. By an assumption agreement in form and substance satisfactory to the Executive, the Bank shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Bank to expressly assume and agree to perform this Split Dollar Agreement in the same manner and to the same extent that the Bank would be required to perform this Split Dollar Agreement if no succession had occurred. The Bank's failure to obtain such an assumption agreement before succession becomes effective shall be considered a breach of the Split Dollar Agreement and shall entitle the Executive to the Change-in-Control Benefits payable under Section 2.4 of the Salary Continuation Agreement between the Bank and the Executive of even date herewith.

8.5 Applicable Law. The Split Dollar Agreement and all rights hereunder shall be governed by and construed according to the laws of the State of Idaho, except to the extent preempted by the laws of the United States of America.

8.6 Entire Agreement. This Split Dollar Agreement and the Salary Continuation Agreement constitute the entire agreement between the Bank and the Executive concerning the subject matter hereof. No rights are granted to the Executive under this Split Dollar Agreement other than those specifically set forth herein.

8.7 Severability. If for any reason any provision of this Split Dollar Agreement is held invalid, such invalidity shall not affect any other provision of this Split Dollar Agreement not held invalid, and to the full extent consistent with the law each such other provision shall continue in full force and effect. If any provision of this Split Dollar Agreement is held invalid in part, such invalidity shall not affect the remainder of such provision, and to the full extent consistent with the law the remainder of such provision, together with all other provisions of this Split Dollar Agreement, shall continue in full force and effect.

8.8 Headings. The caption headings herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any provision of this Split Dollar Agreement.

8.9 Notices. All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed, certified or registered mail, return receipt requested, with postage prepaid, to the following addresses or to such other address as either party may designate by like notice.

- (a) If to the Bank, to:  
Board of Directors  
Panhandle State Bank  
Third and Oak Streets  
Sandpoint, Idaho 83864
- (b) If to the Executive,  
to: Curt Hecker  
Panhandle State Bank  
Third and Oak Streets  
Sandpoint, Idaho 83864

and to such other or additional person or persons as either party shall have designated to the other party in writing by like notice.

8.10 IRC Section 1035 Exchanges. The Executive recognizes and agrees that the Bank may after this Split Dollar Agreement is adopted wish to exchange the Policy for another contract of life insurance insuring the Executive's life. Provided that the Policy is replaced (or intended to be replaced) with a comparable policy of life insurance consistent with the requirements of section 2.4 herein, the Executive agrees to provide medical information and cooperate with medical insurance-related testing required by a prospective Insurer for implementing the Policy or, if necessary, for modifying or updating to a comparable Insurer per section 2.4. The Executive's

inability to pass an insurability determination for purposes of obtaining a comparable replacement Policy does not permit the Bank to abrogate the Executive's interest in the Policy without the Executive's consent.

8.11 Termination or Modification of Split Dollar Agreement Because of Changes in Tax Statutes, Rules, or Regulations. The Bank is entering into this Split Dollar Agreement on the assumption that certain existing tax statutes, rules, and regulations will continue in effect in their current form. If that assumption materially changes and the change has a material detrimental effect on this Split Dollar Agreement, the Bank reserves the right to terminate or modify this Split Dollar Agreement accordingly, subject to obtaining the written consent of the Executive, which shall not be unreasonably withheld. This Section 8.11 shall become null and void effective immediately upon a Change in Control.

IN WITNESS WHEREOF, the Bank and the Executive have executed this Split Dollar Agreement as of the date first written above.

THE EXECUTIVE:

THE BANK:  
PANHANDLE STATE BANK

\_\_\_\_\_  
Curt Hecker

By: \_\_\_\_\_

Its: \_\_\_\_\_

AGREEMENT TO COOPERATE WITH INSURANCE UNDERWRITING INCIDENT TO I.R.C. SECTION 1035 EXCHANGE

I acknowledge that I have read the Split Dollar Agreement and agree to be bound by its terms, particularly the covenant on my part set forth in section 8.10 of the Split Dollar Agreement to provide medical information and cooperate with medical insurance-related testing required by an Insurer to issue a comparable insurance policy to cover the benefit provided under this Split

Dollar Agreement.

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Executive

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PANHANDLE STATE BANK  
SPLIT DOLLAR POLICY ENDORSEMENT

Insured: Curt Hecker  
Policy No. ZUA391030

Insurer: West Coast Life Insurance Company

Pursuant to the terms of the Panhandle State Bank Split Dollar Agreement dated as of \_\_\_\_\_, 2003, the undersigned Owner requests that the above-referenced policy issued by the Insurer provide for the following beneficiary designation and limited contract ownership rights to the Insured:

1. Upon the death of the Insured, proceeds shall be paid in one sum to the Owner, its successors or assigns, to the extent of its interest in the policy. It is hereby provided that the Insurer may rely solely upon a statement from the Owner as to the amount of proceeds it is entitled to receive under this paragraph.

2. Any proceeds at the death of the Insured in excess of the amount paid under the provisions of the preceding paragraph shall be paid in one sum to:

\_\_\_\_\_  
PRIMARY BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

\_\_\_\_\_  
CONTINGENT BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

The exclusive right to change the beneficiary for the proceeds payable under this paragraph, to elect any optional method of settlement for the proceeds paid under this paragraph which are available under the terms of the policy, and to assign all rights and interests granted under this paragraph are hereby granted to the Insured. The sole signature of the Insured shall be sufficient to exercise said rights. The Owner retains all contract rights not granted to the Insured under this paragraph.

3. It is agreed by the undersigned that this designation and limited assignment of rights shall be subject in all respects to the contractual terms of the policy.

4. Any payment directed by the Owner under this endorsement shall be a full discharge of the Insurer, and such discharge shall be binding on all parties claiming any interest under the policy.

The undersigned for the Owner is signing in a representative capacity and warrants that he or she has the authority to bind the entity on whose behalf this document is being executed.

Signed at \_\_\_\_\_, Sandpoint, Idaho, this \_\_\_\_ day of \_\_\_\_, 2003.

INSURED:

OWNER:

Panhandle State Bank

By: \_\_\_\_\_

\_\_\_\_\_  
Curt Hecker

Its: \_\_\_\_\_



PANHANDLE STATE BANK

SPLIT DOLLAR POLICY ENDORSEMENT

Insured: Curt Hecker  
Policy No. 665513

Insurer: Clarica Life Insurance Company

Pursuant to the terms of the Panhandle State Bank Split Dollar Agreement dated as of \_\_\_\_\_, 2003, the undersigned Owner requests that the above-referenced policy issued by the Insurer provide for the following beneficiary designation and limited contract ownership rights to the Insured:

1. Upon the death of the Insured, proceeds shall be paid in one sum to the Owner, its successors or assigns, to the extent of its interest in the policy. It is hereby provided that the Insurer may rely solely upon a statement from the Owner as to the amount of proceeds it is entitled to receive under this paragraph.

2. Any proceeds at the death of the Insured in excess of the amount paid under the provisions of the preceding paragraph shall be paid in one sum to:

\_\_\_\_\_  
PRIMARY BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

\_\_\_\_\_  
CONTINGENT BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

The exclusive right to change the beneficiary for the proceeds payable under this paragraph, to elect any optional method of settlement for the proceeds paid under this paragraph which are available under the terms of the policy, and to assign all rights and interests granted under this paragraph are hereby granted to the Insured. The sole signature of the Insured shall be sufficient to exercise said rights. The Owner retains all contract rights not granted to the Insured under this paragraph.

3. It is agreed by the undersigned that this designation and limited assignment of rights shall be subject in all respects to the contractual terms of the policy.

4. Any payment directed by the Owner under this endorsement shall be a full discharge of the Insurer, and such discharge shall be binding on all parties claiming any interest under the policy.

The undersigned for the Owner is signing in a representative capacity and warrants that he or she has the authority to bind the entity on whose behalf this document is being executed.

Signed at \_\_\_\_\_, Sandpoint, Idaho, this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

INSURED:

OWNER:

Panhandle State Bank

By: \_\_\_\_\_

\_\_\_\_\_  
Curt Hecker

Its: \_\_\_\_\_

PANHANDLE STATE BANK  
SPLIT DOLLAR POLICY ENDORSEMENT

Insured: Curt Hecker  
Policy No. C6475172

Insurer: Ohio National Life Insurance Company

Pursuant to the terms of the Panhandle State Bank Split Dollar Agreement dated as of \_\_\_\_\_, 2003, the undersigned Owner requests that the above-referenced policy issued by the Insurer provide for the following beneficiary designation and limited contract ownership rights to the Insured:

1. Upon the death of the Insured, proceeds shall be paid in one sum to the Owner, its successors or assigns, to the extent of its interest in the policy. It is hereby provided that the Insurer may rely solely upon a statement from the Owner as to the amount of proceeds it is entitled to receive under this paragraph.

2. Any proceeds at the death of the Insured in excess of the amount paid under the provisions of the preceding paragraph shall be paid in one sum to:

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PRIMARY BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

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CONTINGENT BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

The exclusive right to change the beneficiary for the proceeds payable under this paragraph, to elect any optional method of settlement for the proceeds paid under this paragraph which are available under the terms of the policy, and to assign all rights and interests granted under this paragraph are hereby granted to the Insured. The sole signature of the Insured shall be sufficient to exercise said rights. The Owner retains all contract rights not granted to the Insured under this paragraph.

3. It is agreed by the undersigned that this designation and limited assignment of rights shall be subject in all respects to the contractual terms of the policy.

4. Any payment directed by the Owner under this endorsement shall be a full discharge of the Insurer, and such discharge shall be binding on all parties claiming any interest under the policy.

The undersigned for the Owner is signing in a representative capacity and warrants that he or she has the authority to bind the entity on whose behalf this document is being executed.

Signed at \_\_\_\_\_, Sandpoint, Idaho, this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

INSURED:

OWNER:

Panhandle State Bank

By: \_\_\_\_\_

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Curt Hecker

Its: \_\_\_\_\_

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## Section 7: EX-10.10 (EXHIBIT 10.10)

**Exhibit 10.10****EXECUTIVE EMPLOYMENT AGREEMENT  
(Amended and Restated)**

This Amended and Restated **EXECUTIVE EMPLOYMENT AGREEMENT** ("Agreement") is dated as of **January 1, 2008**. The effective date of this Agreement is **January 1, 2002** (the "Effective Date"). The parties to this Agreement ("Parties") are **INTERMOUNTAIN COMMUNITY BANCORP**, an Idaho corporation ("IMCB"), **PANHANDLE STATE BANK**, an Idaho state-chartered bank ("PSB") (IMCB and PSB individually and collectively being "Employer") and **JERROLD B. SMITH** ("Executive").

**Recitals**

A. Executive is employed by Employer in an executive management capacity, presently holding the position of President of Panhandle State Bank, a wholly owned subsidiary of Intermountain Community Bancorp, Executive Vice President, Intermountain Community Bancorp, and member of the Board of Directors of both Panhandle State Bank and Intermountain Community Bancorp. The Parties wish to continue Executive's employment in that capacity under the terms and conditions of this Agreement.

B. Executive previously entered into (i) an Executive Employment Agreement with Employer dated as of January 1, 2002, and (ii) an Executive Severance Agreement dated as of September 15, 1999, as amended, with Panhandle Bancorp, the predecessor name of IMCB (the "Change in Control Agreement"), which provided for certain severance payments to Executive in the event of a change in control of IMCB. The Executive Employment Agreement was amended and restated December 17, 2003 and the Executive Severance Agreement was merged therein thereby terminating a separate Executive Severance Agreement.

C. The December 17, 2003 amended and restated Executive Employment Agreement was amended on March 24, 2004 by a First Amendment and again on March 4, 2005 by a Second Amendment. This amendment and restatement of Executive Employment Agreement is intended to incorporate, restate and replace all prior Executive Employment Agreements and amendments.

D. This amendment and restatement of Executive Employment Agreement is intended to incorporate and make such modifications as shall be necessary to comply with Internal Revenue Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury.

**Agreement**

- 1) **Term of Agreement.** The term of this employment agreement is three (3) years, commencing on the Effective Date (the "Term"). The agreement will automatically
-

renew every three years unless cancelled by the Board of Directors within 60 days of the expiration of the term.

Notwithstanding the preceding, if a definitive agreement providing for a Change in Control (defined below) is entered into (i) on or before the expiration of the Term or (ii) within twelve (12) months after Executive's involuntary termination other than for Cause, Disability, Retirement or death, then expiration of such Term shall be extended through the Severance Protection Period (defined below).

- 2) **Employment.** Employer will continue Executive's employment during the Term, and Executive accepts employment by Employer on the terms and conditions set forth in this Agreement. Executive's titles will continue to be "Executive Vice President for IMCB, "President" for PSB, and Board of Director for both IMCB and PSB.
- 3) **Duties of Executive.** Executive will report directly to the Chief Executive Officer of PSB and President & CEO of IMCB, who is one in the same. Executive will be responsible for the following duties:
  - a) Functions as administrative head of staff in absence of CEO
  - b) Assisting in the developing of and compliance with all bank policies
  - c) Responsible for the strategic planning, development and production of the bank's loan and deposit portfolio and revenue enhancement growth
  - d) Responsible for management of PSB and its divisions as follows: Intermountain Community Bank of Idaho, Intermountain Community Bank of Washington, Magic Valley Bank, and the Revenue Enhancement Groups. The Revenue Enhancement Groups include the following: Small Business Administration Division, Bank's Mortgage Division (Home Loan Centers), Business Advantage Department, Relationship Services Officers, and Real Estate Services Department
  - e) Responsible for development and production of bank's non-interest Income, and control over the bank's non-interest expense
  - f) Calling on the most important existing and potential corporate customers
  - g) Responsible for expansion into new markets and recruitment of employees
  - h) Monitoring all bank progress relative to the financial plan. Directs management to take action accordingly. Reports variances to the CEO.
  - i) Responsible for the development and implementation of the products and services of the Home Loan Center. Oversees staffing requirements and administration.
  - j) Serves on board committees such as: Loan Review, Compliance, Audit, and Strategic Planning; and bank committees such as: Executive Management, Human Resources, Loan, ALCO, Risk Management and other committees assigned by the CEO
  - k) Represents the bank at civic and community activities.
  - l) Oversees operations of bank and revenue enhancement departments. Responsible for efficient operation, adequate staffing, financial planning, goals, marketing within their respective areas, and establishing market share. Monitors progress through financial reports, communication and coordination with each Division President and SVP of revenue enhancement groups.

Recommends operational improvements, policy changes, and strategies relative to financial planning and annual budgeting.

- m) Conducts regular meetings with Presidents and Senior Management to analyze and discuss overall bank production, effectiveness, goals, and strategies. Promotes and encourages a “sales and service” culture throughout the bank system.
  - n) Interviews, hires, trains, supervises and evaluates all production staff. Performs terminations if necessary after all other options have been exhausted.
  - o) Assists Presidents and Senior management with recruiting branch personnel.
- 4) **Commitment of Executive.** (a) Executive will faithfully and diligently perform the duties set forth in Section 3 and such other duties as may be assigned to Executive from time to time by IMCB’s board of directors (the “Board”). Executive will use his best efforts to perform his duties and will devote full time and attention to these duties during working hours. Executive may engage in non-IMCB business activities with prior Board approval, which approval will not be unreasonably withheld.
- (b) In the event that any person extends any proposal or offer which is intended to or may result in a Change in Control, defined below (a “Change in Control Proposal”), Executive shall, at Employer’s request, assist Employer in evaluating such proposal or offer. Further, as a condition to receipt of the Severance Payment (defined below), Executive agrees not to voluntarily resign (including resignation for Good Reason) Executive’s position with Employer during any period from the receipt of a specific Change in Control Proposal up to the consummation or abandonment of the transaction contemplated by such Proposal.
- 5) **Salary.** Executive will receive an annual base salary of \$182,640 to be paid in accordance with PSB’s regular payroll schedule. The Executive Committee of the Board will review Executive’s salary in connection with its performance review on an annual basis.
- 6) **Other Compensation.** Executive will participate in both the Long-Term Incentive Plan and Executive Incentive Plan administered by the Human Resource Committee.
- a) Executive is eligible to participate in PSB’s 401K retirement plan with employer match of 50% of first 8% of salary contributed.
  - b) Executive may receive stock grants annually, based on performance evaluation at the discretion of the Board of Directors.
- 7) **Salary Continuation Plan.** In consideration of this agreement, IMCB has entered into a Salary Continuation Agreement with Executive, substantially in the form approved by IMCB’s board of directors on October 22, 2003 (the “Salary Continuation Agreement”).

- 8) **Vacation and Benefits.** Executive is eligible for four (4) weeks of paid vacation per year. Unused vacation time will not be carried over. Additional benefits include life insurance of \$100,000 for Executive and \$2,000 for Executive's spouse and \$2,000 for each dependent, and miscellaneous firm-wide benefits such as free checking account, safe deposit box, no fee investments, etc. Executive shall also be entitled to use of a company automobile with gas card.
- 9) **Termination and Severance Provisions.** If, during the Term, Executive's employment with Employer is involuntarily terminated without Cause or if Employee voluntarily terminates employment with Employer either with Good Reason or without Good Reason, and provided that such termination does not otherwise entitle Executive to receive a Severance Payment (as defined below) under Section 10 of this Agreement, Executive will be entitled to receive a termination payment equal to two (2) times the average of the total base compensation received by Executive for each of the two most recent calendar years ("Termination Payment"). The Termination Payment shall be paid in one lump sum payment, payable on the first day of the seventh month after the month in which the Executive's termination of employment occurs. Notwithstanding the preceding, in the event that a definitive agreement providing for a Change in Control (each as defined below) is entered into within twelve (12) months after Executive's involuntary termination without Cause or voluntary termination with or without Good Reason, Executive shall be entitled to receive the difference between the Severance Payment and the Termination Payment. Such difference shall be paid to the Executive on the later of the date of termination, the effective date of the Change in Control, or the first day of the seventh month after the month in which the Executive's termination of employment occurred.
- 10) **Change in Control/Severance Payment.**
- a) **Payment Events.** Subject to the requirements of Section 4(b) of this Agreement, in the event of involuntary termination of Executive's employment with Employer, other than for Cause, Disability, Retirement, (each defined below) or death, or in the event of voluntary termination for Good Reason (defined below), (i) within the Severance Protection Period after a Change in Control, (ii) within twelve (12) months before a definitive agreement providing for a Change in Control is entered into or (iii) within the period between the date a definitive agreement is executed and the effective date of the Change of Control, Employer will pay Executive a severance payment in the amount determined pursuant to the next section ("Severance Payment"), payable on the later of the date of termination, the effective date of the Change in Control, or the first day of the seventh month after the month in which the Executive's termination of employment occurs. The "Severance Protection Period" shall be the period beginning on the effective date of the Change of Control and continuing thereafter for twenty-four (24) months.

- b) Amount of Payment. The Severance Payment shall be an amount equal to two (2) times the average of the total base compensation and short term bonus received by Executive for each of the two most recent calendar years.

11) **Excise Tax Under Internal Revenue Code Sections 280G and 4999.**

- a) Partial Reimbursement of Excise Tax. If a Change in Control occurs the Executive may become entitled to acceleration of benefits under this Agreement or under any other plan or agreement of or with PSB or IMCB, including accelerated vesting of stock options and acceleration of benefits under any other benefit, compensation, or incentive plan or arrangement with PSB or IMCB (collectively, the "Total Benefits"). If a Change in Control occurs, IMCB and PSB shall cause the certified public accounting firm retained by IMCB as of the date immediately before the Change in Control (the "Accounting Firm") to calculate the Total Benefits and any excise tax payable by the Executive under sections 280G and 4999 based upon the Total Benefits. If the Accounting Firm determines that an excise tax is payable, at the same time PSB pays the Change in Control benefit under Section 10 of this Agreement, and not before, PSB shall also pay to the Executive an amount in cash equal to the excise tax calculated by the Accounting Firm (the "Excise Tax"). The Executive acknowledges and agrees that this Section 11 provides for partial reimbursement only of the final excise tax that may be payable by him, and that additional unreimbursed excise taxes may be payable by him after taking into account the reimbursement payment provided under this Section 11. The partial reimbursement of the excise tax under this Section 11 shall be made in addition to the amount set forth in Section 10.
- (b) Calculating the Excise Tax. For purposes of determining whether any of the Total Benefits will be subject to the Excise Tax and for purposes of determining the amount of the Excise Tax,

1) *Determination of "Parachute Payments" Subject to the Excise Tax:* any other payments or benefits received or to be received by the Executive in connection with a Change in Control or the Executive's Termination of Employment (whether under the terms of this Agreement or any other agreement, stock option plan or any other benefit plan or arrangement with PSB or IMCB, any person whose actions result in a Change in Control or any person affiliated with PSB, IMCB, or such person) shall be treated as "parachute payments" within the meaning of section 280G(b)(2) of the Internal Revenue Code, and all "excess parachute payments" within the meaning of section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of the Accounting Firm such other payments or benefits do not constitute (in whole or in part) parachute payments, or such excess parachute payments represent (in whole or in part) reasonable compensation for services actually rendered within the meaning of section 280G(b)(4) of the

Internal Revenue Code in excess (as defined in section 280G(b)(3) of the Internal Revenue Code), or are otherwise not subject to the Excise Tax,

2) *Calculation of Benefits Subject to Excise Tax*: the amount of the Total Benefits that shall be treated as subject to the Excise Tax shall be equal to the lesser of (a) the total amount of the Total Benefits reduced by the amount of such Total Benefits that in the opinion of the Accounting Firm are not parachute payments, or (b) the amount of excess parachute payments within the meaning of section 280G(b)(1) (after applying clause (i), above), and

3) *Value of Noncash Benefits and Deferred Payments*: the value of any noncash benefits or any deferred payment or benefit shall be determined by the Accounting Firm in accordance with the principles of sections 280G(d)(3) and (4) of the Internal Revenue Code.

- (c) Assumed Marginal Income Tax Rate. For purposes of determining the amount of the partial Excise Tax reimbursement payment to be made under this Section 11, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the partial Excise Tax reimbursement under this Section 11 is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the date of Termination of Employment, net of the reduction in federal income taxes that can be obtained from deduction of such state and local taxes (calculated by assuming that any reduction under section 68 of the Internal Revenue Code in the amount of itemized deductions allowable to the Executive applies first to reduce the amount of such state and local income taxes that would otherwise be deductible by the Executive, and applicable federal FICA and Medicare withholding taxes).
- (d) Accounting Firm's Determinations Are Final and Binding. All determinations made by the Accounting Firm under this Section 11 shall be final and binding on PSB, IMCB, and the Executive. All determinations required to be made under this Section 11 – including the assumptions used to calculate Total Benefits and the Excise Tax – shall be made by the Accounting Firm, which shall provide detailed supporting calculations both to PSB and the Executive.

## 12) Definitions

- a) Termination for Cause and Cause. "Involuntary Termination for Cause" and "Cause" mean termination of the Executive's employment for any of the following reasons:
- 1) the Executive's gross negligence or gross neglect of duties or intentional and material failure to perform stated duties after written notice thereof, or;



- 2) disloyalty or dishonesty by the Executive in the performance of the Executive's duties, or a breach of the Executive's fiduciary duties for personal profit, in any case whether in the Executive's capacity as a director or officer, or
  - 3) intentional wrongful damage by the Executive to the business or property of the Bank or its affiliates, including without limitation the reputation of the Bank, which in the judgment of the Bank causes material harm to the Bank or affiliates, or
  - 4) a willful violation by the Executive of any applicable law or significant policy of the Bank or an affiliate that, in the Bank's judgment, results in an adverse effect on the Bank or the affiliate, regardless of whether the violation leads to criminal prosecution or conviction. For purposes of this Agreement, applicable laws include any statute, rule, regulatory order, statement of policy, or final cease-and-desist order of any governmental agency or body having regulatory authority over the Bank, or
  - 5) the occurrence of any event that results in the Executive being excluded from coverage, or having coverage limited for the Executive as compared to other executives of the Bank, under the Bank's blanket bond or other fidelity or insurance policy covering its directors, officers, or employees, or
  - 6) the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or section 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), or
  - 7) conviction of the Executive for or plea of no contest to a felony or conviction of or plea of no contest to a misdemeanor involving moral turpitude, or the actual incarceration of the Executive for 45 consecutive days or more.
- b) Change in Control. "Change in Control" means a change in control as defined in Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, including:
- 1) *Change in ownership*: a change in ownership of Intermountain Community Bancorp, an Idaho corporation of which the Employer is a wholly owned subsidiary, occurs on the date any one person or group accumulates ownership of Intermountain Community Bancorp stock constituting more than 50% of the total fair market value or total voting power of Intermountain Community Bancorp stock,;
  - 2) *Change in effective control*: (i) any one person, or more than one person acting as a group, acquires within a 12-month period ownership of Intermountain Community Bancorp stock possessing 30% or more of the total voting power of Intermountain Community Bancorp stock, or (ii) a majority of Intermountain Community Bancorp's board of directors is replaced during any 12-month period by directors whose

appointment or election is not endorsed in advance by a majority of Intermountain Community Bancorp's board of directors, or;

- 3) *Change in ownership of a substantial portion of assets*: a change in ownership of a substantial portion of Intermountain Community Bancorp's assets occurs if in a 12-month period any one person or more than one person acting as a group acquires from Intermountain Community Bancorp assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of Intermountain Community Bancorp's assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of Intermountain Community Bancorp's assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.
- c) Change in Control Proposal. "Change in Control Proposal" has the meaning assigned in Section 4(b) of this Agreement.
  - d) Disability. "Disability" means, because of a medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for a continuous period of at least 12 months, (i) the Executive is unable to engage in any substantial gainful activity, or (ii) the Executive is receiving income replacement benefits for a period of at least three months under an accident and health plan of the employer. Medical determination of disability may be made either by the Social Security Administration or by the provider of an accident or health plan covering employees of the Employer. Upon request of the Plan Administrator, the Executive must submit proof to the Plan Administrator of the Social Security Administration's or provider's determination.
  - e) Retirement. "Retirement" shall mean voluntary termination by Executive in accordance with PSB's retirement policies, including early retirement, if applicable to their salaried employees.
  - f) Good Reason. "Voluntary Termination with Good Reason" means a voluntary termination of employment by the Executive if any one or more of the following conditions occur without the Executive's advance written consent, provided that (i) Executive shall have given notice to the Employer of the existence of one or more of the following conditions within ninety (90) days following the initial existence of the condition(s), (ii) that within thirty (30) days after such notice Employer shall have failed to remedy such condition(s) and (iii) the Executive's voluntary termination due to one or more of such conditions shall have occurred within twenty-four (24) months following the initial existence of at least one of the conditions:
    - 1) a material diminution of the Executive's base salary;
    - 2) a material diminution of the Executive's authority, duties, or responsibilities;
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- 3) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report, including a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the board of directors;
  - 4) a material diminution in the budget over which the Executive retains authority;
  - 5) a material change in the geographic location at which the Executive must perform services for the Employer (material change in geographic location means a change of more than 60 miles (one way) in the Executive's commute if the Executive does not agree to move), or;
  - 6) any other action or inaction that constitutes a material breach by the Employer of this agreement or of any other agreement under which the Executive provides services to the Employer.
- 13) **Confidentiality.** Executive will not, after signing this Agreement, including during and after its Term, use for his own purposes or disclose to any other person or entity any confidential information concerning Employer or its business operations or customers, unless (1) Employer consents to the use or disclosure of its confidential information, (2) the use or disclosure is consistent with Executive's duties under this Agreement, or (3) disclosure is required by law or court order. Confidential information includes, but is not limited to, financial information, customer lists, marketing strategies, and business plans.
- 14) **Return of Employer Property.** If and when Executive ceases, for any reason, to be employed by Employer, Executive must return to Employer all keys, pass cards, identification cards and any other property of Employer. At the same time, Executive also must return to Employer all originals and copies (whether in hard copy, electronic or other form) of any documents, notes, memoranda, designs, devices, diskettes, tapes, manuals, and specifications which constitute proprietary information or material of Employer. The obligations in this Section include the return of documents and other materials which may be in Executive's desk at work, in Executive's car or place of residence, or in any other location under Executive's control.
- 15) **Non-Solicitation.** Executive shall not solicit or cause to be solicited for employment any employee of Employer for a period of two (2) years following Executive's termination; nor solicit or cause to be solicited the business and/or accounts of customers of Employer for a period of two years following Executive's termination. Executive's obligations under this Section 15 terminate immediately upon a Change in Control.
- 16) **Non-competition.** Except as otherwise expressly provided in this Agreement, while Executive is employed by Employer and for two years following termination of Executive's employment for any reason, , Executive will not become involved with a Competing Business or serve, directly or indirectly, a Competing Business in any manner, including, without limitation, as a shareholder, member, partner, director,

officer, manager, investor, organizer, “founder,” employee, consultant, or agent; provided, however, that Executive may acquire and passively own an interest not exceeding 2% of the total equity interest in a Competing Business. Executive’s obligations under this Section 16 terminate immediately upon a Change in Control. For purposes of this Agreement, the term “Competing Business” means any financial service institutions, including without limitation banks, insurance companies, leasing companies, mortgage companies, and brokerage firms that engage in business in the State of Idaho, or southeastern Oregon, or eastern Washington.

17) **Enforcement.**

- a) Employer and Executive stipulate that, in light of all of the facts and circumstances of the relationship between Executive and Employer, the agreements referred to in Sections 15 and 16 (including without limitation their scope, duration and geographic extent) are fair and reasonably necessary for the protection of Employer’s goodwill and other protectable interests. If a court of competent jurisdiction should decline to enforce any of those covenants and agreements, Executive and Employer request the court to reform these provisions to restrict Executive’s ability to compete with Employer to the maximum extent, in time, scope of activities, and geography, the court finds enforceable.
- b) Executive acknowledges that Employer will suffer immediate and irreparable harm that will not be compensable by damages alone, if Executive repudiates or breaches any of the provisions of Sections 15 and 16 or threatens or attempts to do so. For this reason, under these circumstances, Employer, in addition to and without limitation of any other rights, remedies or damages available to it at law or in equity, will be entitled to obtain temporary, preliminary, and permanent injunctions in order to prevent or restrain the breach, and Employer will not be required to post a bond as a condition for the granting of this relief.

18) **Adequate Consideration.** Executive specifically acknowledges the receipt of adequate consideration, including without limitation the Termination Payment, identified in Section 9, if due and owing, for the covenants contained in Sections 15 and 16 and that Employer is entitled to require him to comply with those Sections regardless of the reason(s) for Executive’s separation of employment with Employer. Sections 15 and 16 will survive termination of this Agreement, but will expire no later than two years from the date of the termination of employment or the maturity of this agreement, whichever is later. Executive represents that if his employment is terminated, whether voluntarily or involuntarily, Executive has experience and capabilities sufficient to enable Executive to obtain employment in areas which do not violate this Agreement and that Employer’s enforcement of a remedy by way of injunction will not prevent Executive from earning a livelihood.

19) **Entire Agreement.** This agreement constitutes the entire understanding between the parties concerning its subject matter and supersedes all prior agreements,

including that certain employment agreement between Executive and Employer effective January 1, 2002 and the Change in Control Agreement. Accordingly, Executive specifically waives the terms of and all of Executive's rights under any severance provisions of any employment and/or change-in-control agreements, whether written or oral, previously entered into with PSB and/or IMCB. Notwithstanding the preceding, the terms of this agreement are separate from and do not supercede the terms of the Salary Continuation Agreement.

- 20) **Savings Clause Relating to Compliance with Code Section 409A.** Despite any contrary provision of this Agreement, if when the Executive's employment terminates the Executive is a specified employee, as defined in Code section 409A, and if any payments under Articles 9, 10 or 11 of this Agreement will result in additional tax or interest to the Executive because of section 409A, the Executive shall not be entitled to the payments under Articles 9, 10 or 11 until the earliest of (i) the date that is at least six months after termination of the Executive's employment for reasons other than the Executive's death, (ii) the date of the Executive's death, or (iii) any earlier date that does not result in additional tax or interest to the Executive under section 409A. If any provision of this Agreement would subject the Executive to additional tax or interest under section 409A, the Employer shall reform the provision. However, the Employer shall maintain to the maximum extent practicable the original intent of the applicable provision without subjecting the Executive to additional tax or interest, and the Employer shall not be required to incur any additional compensation expense as a result of the reformed provision.
- 21) **Miscellaneous Provisions.**
- a) Choice of Law. This Agreement is made with reference to and is intended to be construed in accordance with the laws of the State of Idaho.
  - b) Payment of Legal Fees. Employer is aware that after a Change in Control management could cause or attempt to cause Employer to refuse to comply with the obligations under this Agreement, or could institute or cause or attempt to cause Employer to institute litigation seeking to have this Agreement declared unenforceable, or could take or attempt to take other action to deny Executive the benefits intended under this Agreement. In these circumstances the purpose of this Agreement would be frustrated. It is Employer's intention that the Executive not be required to incur the expenses associated with the enforcement of his rights under this Agreement, whether by litigation or other legal action, because the cost and expense thereof would substantially detract from the benefits intended to be granted to the Executive hereunder. It is Employer's intention that the Executive not be forced to negotiate settlement of his rights under this Agreement under threat of incurring expenses. Accordingly, if after a Change in Control occurs it appears to the Executive that (a) Employer has failed to comply with any of its obligations under this Agreement, or (b) Employer or any other person has taken any action to declare this Agreement void or unenforceable, or

instituted any litigation or other legal action designed to deny, diminish, or to recover from the Executive the benefits intended to be provided to the Executive hereunder, Employer irrevocably authorize the Executive from time to time to retain counsel of his choice, at Employer's expense as provided in this paragraph (b), to represent the Executive in connection with the initiation or defense of any litigation or other legal action, whether by or against Employer or any director, officer, stockholder, or other person affiliated with Employer, in any jurisdiction. Notwithstanding any existing or previous attorney-client relationship between Employer and any counsel chosen by the Executive under this paragraph (b), Employer irrevocably consents to the Executive entering into an attorney-client relationship with that counsel, and Employer and the Executive agree that a confidential relationship shall exist between the Executive and that counsel. The fees and expenses of counsel selected from time to time by the Executive as provided in this section shall be paid or reimbursed to the Executive by Employer on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by such counsel in accordance with such counsel's customary practices, up to a maximum aggregate amount of \$500,000, whether suit be brought or not, and whether or not incurred in trial, bankruptcy, or appellate proceedings. Employer's obligation to pay the Executive's legal fees provided by this paragraph (b) operates separately from and in addition to any legal fee reimbursement obligation Employer may have with the Executive under any separate severance, employment, salary continuation, or other agreement. Anything in this paragraph (b) to the contrary notwithstanding however, Employer shall not be required to pay or reimburse the Executive's legal expenses if doing so would violate section 18(k) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)] and Rule 359.3 of the Federal Deposit Insurance Corporation [12 CFR 359.3].

- c) Successors. This Agreement shall bind and inure to the benefit of the Parties and each of their respective affiliates, legal representatives, heirs, successors and assigns.
- d) Amendment. This Agreement may be amended only in a writing signed by the Parties.
- e) Headings. The headings of sections of this Agreement have been included for convenience of reference only. They shall not be construed to modify or otherwise affect in any respect any of the provisions of the Agreement.
- f) Counsel Review. Executive acknowledges that he has had the opportunity to consult with independent counsel with respect to the negotiation, preparation, and execution of this Agreement.

- g) Severability. The provisions of this Agreement are severable. The invalidity of any provision will not affect the validity of other provisions of this Agreement.

EXECUTED by each of the Parties effective as of the date first stated above.

IMCB  
Intermountain Community Bancorp,  
an Idaho Corporation

/s/  
\_\_\_\_\_  
Curt Hecker  
President & CEO  
Date: \_\_\_\_\_

PSB  
Panhandle State Bank,  
an Idaho state chartered bank

/s/  
\_\_\_\_\_  
Curt Hecker  
Chief Executive Officer  
Date: \_\_\_\_\_

EXECUTIVE  
Jerrold B. Smith  
Executive Vice President of IMCB and  
President of Panhandle State Bank

/s/  
\_\_\_\_\_  
Jerrold B. Smith  
Date: \_\_\_\_\_

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## Section 8: EX-10.11 (EXHIBIT 10.11)

EXHIBIT 10.11

PANHANDLE STATE BANK  
SALARY CONTINUATION AGREEMENT  
(AMENDED AND RESTATED)

This AMENDED AND RESTATED SALARY CONTINUATION AGREEMENT (this "Agreement") is entered into as of this 1st day of January, 2008, by and between Panhandle State Bank, an Idaho-chartered bank (the "Bank"), and Jerrold B. Smith, President of the Bank (the "Executive").

WHEREAS, the Executive and the Bank entered into a Salary Continuation Agreement dated as of January 1, 2002,

WHEREAS, the Executive and the Bank desire to amend the Salary Continuation Agreement and, as amended, to restate the Salary Continuation Agreement in its entirety,

WHEREAS, none of the conditions or events included in the definition of the term "golden parachute payment" that is contained in section 18(k)(4)(A)(ii) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)(4)(A)(ii)] and in Federal Deposit Insurance Corporation Rule 359.1(f)(1)(ii) [12 CFR 359.1(f)(1)(ii)] exists or, to the best knowledge of the Bank, is contemplated insofar as the Bank is concerned, and

WHEREAS, the parties hereto intend that this Agreement shall be considered an unfunded arrangement maintained primarily to provide supplemental retirement benefits for the Executive, and to be considered a non-qualified benefit plan

for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Executive is fully advised of the Bank's financial status.

NOW THEREFORE, in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Bank hereby agree as follows.

ARTICLE 1  
DEFINITIONS

1.1 "ACCRUAL BALANCE" means the liability that should be accrued by the Bank under generally accepted accounting principles ("GAAP") for the Bank's obligation to the Executive under this Agreement, applying Accounting Principles Board Opinion No. 12, as amended by Statement of Financial Accounting Standards No. 106, and the calculation method and discount rate specified hereinafter. The Accrual Balance shall be calculated such that when it is credited with interest each month the Accrual Balance at Normal Retirement Age equals the present value of the normal retirement benefits. The discount rate means the rate used by the Plan Administrator for determining the Accrual Balance. The rate is based on the yield on a 20-year corporate bond rated Aa by Moody's, rounded to the nearest 1/4%. In its sole discretion, the Plan Administrator may adjust the discount rate to maintain the rate within reasonable standards according to GAAP.

1.2 "BENEFICIARY" means each designated person, or the estate of the deceased Executive, entitled to benefits, if any, upon the death of the Executive, determined according to Article 4.

1.3 "BENEFICIARY DESIGNATION FORM" means the form established from time to time by the Plan Administrator that the Executive completes, signs, and returns to the Plan Administrator to designate one or more Beneficiaries.

1.4 "CHANGE IN CONTROL" means a change in control as defined in Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, including -

(a) Change in ownership: a change in ownership of Intermountain Community Bancorp, an Idaho corporation of which the Bank is a wholly owned subsidiary, occurs on the date any one person or group accumulates ownership of Intermountain Community Bancorp stock constituting more than 50% of the total fair market value or total voting power of Intermountain Community Bancorp stock,

(b) Change in effective control: (i) any one person, or more than one person acting as a group, acquires within a 12-month period ownership of Intermountain Community Bancorp stock possessing 30% or more of the total voting power of Intermountain Community Bancorp stock, or (ii) a majority of Intermountain Community Bancorp's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed in advance by a majority of Intermountain Community Bancorp's board of directors, or

(c) Change in ownership of a substantial portion of assets: a change in ownership of a substantial portion of Intermountain Community Bancorp's assets occurs if in a 12-month period any one person or more than one person acting as a group acquires from Intermountain Community Bancorp assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of Intermountain Community Bancorp's assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of Intermountain Community Bancorp's assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.

1.5 "CODE" means the Internal Revenue Code of 1986, as amended, and rules, regulations, and guidance of general application issued thereunder by the Department of the Treasury.



1.6 "DISABILITY" means, because of a medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for a continuous period of at least 12 months, (i) the Executive is unable to engage in any substantial gainful activity, or (ii) the Executive is receiving income replacement benefits for a period of at least three months under an accident and health plan of the employer. Medical determination of disability may be made either by the Social Security Administration or by the provider of an accident or health plan covering employees of the Bank. Upon request of the Plan Administrator, the Executive must submit proof to the Plan Administrator of the Social Security Administration's or provider's determination.

1.7 "EARLY TERMINATION" means the Executive's Separation from Service with the Bank before Normal Retirement Age for reasons other than death or Disability. Early Termination excludes a Separation from Service governed by section 2.4.

1.8 "EFFECTIVE DATE" means January 1, 2002.

1.9 "NORMAL RETIREMENT AGE" means the Executive's 60th birthday.

1.10 "PLAN ADMINISTRATOR" or "ADMINISTRATOR" means the plan administrator described in Article 7.

1.11 "PLAN YEAR" means a twelve-month period commencing on January 1 and ending on the last day of December of each year. The initial Plan Year shall commence on the Effective Date of this Agreement.

1.12 "SEPARATION FROM SERVICE" means the Executive's service as an executive and independent contractor to the Bank and any member of a controlled group, as defined in Code section 414, terminates for any reason, other than because of a leave of absence approved by the Bank or the Executive's death. For purposes of this Agreement, if there is a dispute about the employment status of the Executive or the date of the Executive's Separation from Service, the Bank shall have the sole and absolute right to decide the dispute unless a Change in Control shall have occurred.

1.13 "TERMINATION FOR CAUSE" and "CAUSE" mean the definition of termination for cause specified in any severance or employment agreement existing on the date hereof or hereafter entered into between the Executive and the Bank or between the Executive and Intermountain Community Bancorp. If the Executive is not a party to an effective severance or employment agreement defining termination for cause, Termination for Cause means termination of the Executive's employment for any of the following reasons -

(a) the Executive's gross negligence or gross neglect of duties or intentional and material failure to perform stated duties after written notice thereof, or

(b) disloyalty or dishonesty by the Executive in the performance of the Executive's duties, or a breach of the Executive's fiduciary duties for personal profit, in any case whether in the Executive's capacity as a director or officer, or

(c) intentional wrongful damage by the Executive to the business or property of the Bank or its affiliates, including without limitation the reputation of the Bank, which in the judgment of the Bank causes material harm to the Bank or affiliates, or

(d) a willful violation by the Executive of any applicable law or significant policy of the Bank or an affiliate that, in the Bank's judgment, results in an adverse effect on the Bank or the affiliate, regardless of whether the violation leads to criminal prosecution or conviction. For purposes of this Agreement, applicable laws include any statute, rule, regulatory order, statement of policy, or final cease-and-desist order of any governmental agency or body having regulatory authority over the Bank, or

(e) the occurrence of any event that results in the Executive being excluded from coverage, or having coverage limited for the Executive as compared to other executives of the Bank, under the Bank's blanket bond or other fidelity or insurance policy covering its directors, officers, or employees, or

(f) the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or section 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), or

(g) conviction of the Executive for or plea of no contest to a felony or conviction of or plea of no contest to a misdemeanor involving moral turpitude, or the actual incarceration of the Executive for 45 consecutive days or more.

1.14 "VOLUNTARY TERMINATION WITH GOOD REASON" means a voluntary Separation from Service by the Executive within 24 months after a Change in Control if the following conditions (i) and (ii) are satisfied: (i) a voluntary Separation from Service by the Executive will be considered a Voluntary Termination for Good Reason if any of the following occur without the Executive's advance written consent -

1) a material diminution of the Executive's base salary,

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2) a material diminution of the Executive's authority, duties, or responsibilities,

3) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report, including a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the board of directors,

4) a material diminution in the budget over which the Executive retains authority,

5) a material change in the geographic location at which the Executive must perform services for the Bank, or

6) any other action or inaction that constitutes a material breach by the Bank of the agreement under which the Executive provides services to the Bank.

(ii) the Executive must give notice to the Bank of the existence of one or more of the conditions described in clause (i) within 90 days after the initial existence of the condition, and the Bank shall have 30 days thereafter to remedy the condition. In addition, the Executive's voluntary termination because of the existence of one or more of the conditions described in clause (i) must occur within 24 months after the earlier of the initial existence of the condition or the Change in Control.

## ARTICLE 2 LIFETIME BENEFITS

2.1 NORMAL RETIREMENT. Unless Separation from Service occurs before Normal Retirement Age, when the Executive attains Normal Retirement Age the Bank shall pay to the Executive the benefit described in this section 2.1 instead of any other benefit under this Agreement. If the Executive's Separation from Service thereafter is a Termination for Cause or if this Agreement terminates under Article 5, no further benefits shall be paid.

2.1.1 Amount of benefit. The annual benefit under this section 2.1 is \$110,963.

2.1.2 Payment of benefit. Beginning with the month immediately after the

month in which the Executive attains Normal Retirement Age, the Bank shall pay the annual benefit to the Executive in 12 equal monthly installments on the first day of each month. The annual benefit shall be paid to the Executive for ten years.

2.2 EARLY TERMINATION. If Early Termination occurs before Normal Retirement Age but ten years or more after the Effective Date, the Bank shall pay to the Executive the benefit described in this section 2.2 instead of any other benefit under this Agreement. If Early Termination occurs within ten years after the Effective Date, no benefit shall be payable under this Agreement. Additionally, no benefits shall be payable under this Agreement if the Executive's employment is terminated under circumstances described in Article 5 of this Agreement. Neither the Bank nor the Executive shall be entitled to elect in the 24-month period after a Change in Control between the benefit under this section 2.2 versus the benefit under section 2.4. If the Executive's Separation from Service within 24 months after a Change in Control is an involuntary termination other than for Cause or a Voluntary Termination with Good Reason, no benefit shall be payable under this section 2.2 and the Executive shall instead be entitled to the benefit under section 2.4 (unless the Change in Control is the result of a written supervisory determination by the FDIC that the Bank should be sold) or, if the Executive first attained Normal Retirement Age, section 2.1.

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2.2.1 Amount of benefit. The annual benefit under this section 2.2 is calculated as the amount that fully amortizes the Accrual Balance existing at the end of the month immediately before the month in which Separation from Service occurs, amortizing that Accrual Balance over the ten-year period beginning with the Executive's Normal Retirement Age and taking into account interest at the discount rate or rates established by the Plan Administrator.

2.2.2 Payment of benefit. Beginning with the later of (i) the seventh month after the month in which the Executive's Separation from Service occurs, or (ii) the month immediately after the month in which the Executive attains Normal Retirement Age, the Bank shall pay the annual benefit to the Executive in 12 equal monthly installments on the first day of each month. The annual benefit shall be paid to the Executive for ten years.

2.3 DISABILITY. For Separation from Service because of Disability before Normal Retirement Age, the Bank shall pay to the Executive the benefit described in this section 2.3 instead of any other benefit under this Agreement.

2.3.1 Amount of benefit. The annual benefit under this section 2.3 is calculated as the amount that fully amortizes the Accrual Balance existing at the end of the month immediately before the month in which Separation from Service occurs, amortizing that Accrual Balance over the ten-year period beginning with the Executive's Normal Retirement Age and taking into account interest at the discount rate or rates established by the Plan Administrator.

2.3.2 Payment of benefit. Beginning with the later of (i) the seventh month after the month in which the Executive's Separation from Service occurs, or (ii) the month immediately after the month in which the Executive attains Normal Retirement Age, the Bank shall pay the annual benefit to the Executive in 12 equal monthly installments on the first day of each month. The annual benefit shall be paid to the Executive for ten years.

2.4 CHANGE-IN-CONTROL. If the Executive's Separation from Service is an involuntary termination without Cause or a Voluntary Termination with Good Reason, in either case within 24 months after a Change in Control, the Bank shall pay to the Executive the benefit described in this section 2.4 instead of any other benefit under this Agreement, unless the Change in Control is the result of a written supervisory determination by the FDIC that the Bank should

be sold. No benefits shall be payable under this Agreement if the Executive's employment is terminated under circumstances described in Article 5 of this Agreement. Neither the Bank nor the Executive shall be entitled to elect in the 24-month period after a Change in Control between the benefit under this section 2.4 versus the Early Termination benefit under section 2.2. If the Executive's Separation from Service within 24 months after a Change in Control is an involuntary termination without Cause or a Voluntary Termination with Good Reason, no benefit shall be payable under section 2.2 and the Executive shall instead be entitled to the benefit under this section 2.4, unless the Change in Control is the result of a written supervisory determination by the FDIC that the Bank should be sold. But if the Executive shall have attained Normal Retirement Age when Separation from Service within 24 months after a Change in Control occurs, whether Separation from Service is voluntary or involuntary for any reason other than Termination for Cause, the Executive shall be entitled solely to the benefit provided by section 2.1, not this section 2.4.

- 2.4.1 Amount of benefit. The benefit under this section 2.4 is the Normal Retirement Age Accrual Balance required by section 2.1, discounting the Normal Retirement Age Accrual Balance to present value using a discount rate selected by the Plan Administrator, but the

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discount rate selected by the Plan Administrator shall not exceed the discount rate employed at the time of the Change in Control for purposes of calculating the Accrual Balance.

- 2.4.2 Payment of benefit. The Bank shall pay the benefit under this section 2.4 to the Executive in a single lump sum on the first day of the seventh month after the month in which the Executive's Separation from Service occurs.

2.5 LUMP-SUM PAYOUT OF REMAINING NORMAL RETIREMENT BENEFIT, EARLY TERMINATION BENEFIT, OR DISABILITY BENEFIT WHEN A CHANGE IN CONTROL OCCURS. If a Change in Control occurs while the Executive is receiving the Normal Retirement Age benefit under section 2.1, the Bank shall pay the remaining salary continuation benefits to the Executive in a single lump sum on the date of the Change in Control. If a Change in Control occurs after Separation from Service but while the Executive is receiving or is entitled at Normal Retirement Age to receive the Early Termination benefit under section 2.2 or the Disability benefit under section 2.3, the Bank shall pay the remaining salary continuation benefits to the Executive in a single lump sum on the later of (i) the date of the Change in Control or (ii) the first day of the seventh month after the month in which the Executive's Separation from Service occurs. The lump-sum payment due to the Executive as a result of a Change in Control shall be an amount equal to the Accrual Balance amount corresponding to the particular benefit when the Change in Control occurs.

2.6 ANNUAL BENEFIT STATEMENT. Within 120 days after the end of each Plan Year the Plan Administrator shall provide or cause to be provided to the Executive an annual benefit statement showing benefits payable or potentially payable to the Executive under this Agreement. Each annual benefit statement shall supersede the previous year's annual benefit statement. If there is a contradiction between this Agreement and the annual benefit statement concerning the amount of a particular benefit payable or potentially payable to the Executive under sections 2.2, 2.3, or 2.4 hereof, the amount of the benefit determined under the Agreement shall control.

2.7 SAVINGS CLAUSE RELATING TO COMPLIANCE WITH CODE SECTION 409A. Despite any contrary provision of this Agreement, if when the Executive's employment terminates the Executive is a specified employee, as defined in Code section 409A, and if any payments under Article 2 of this Agreement will result in additional tax or interest to the Executive because of section 409A, the Executive shall not be entitled to the payments under Article 2 until the earliest of (i) the date that is at least six months after termination of the Executive's employment for reasons other than the Executive's death, (ii) the date of the Executive's death, or (iii) any earlier date that does not result in

additional tax or interest to the Executive under section 409A. If any provision of this Agreement would subject the Executive to additional tax or interest under section 409A, the Bank shall reform the provision. However, the Bank shall maintain to the maximum extent practicable the original intent of the applicable provision without subjecting the Executive to additional tax or interest, and the Bank shall not be required to incur any additional compensation expense as a result of the reformed provision.

2.8 ONE BENEFIT ONLY. Despite anything to the contrary in this Agreement, the Executive and Beneficiary are entitled to one benefit only under this Agreement, which shall be determined by the first event to occur that is dealt with by this Agreement. Except as provided in section 2.5 or Article 3, subsequent occurrence of events dealt with by this Agreement shall not entitle the Executive or Beneficiary to other or additional benefits under this Agreement.

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ARTICLE 3  
DEATH BENEFITS

3.1 DEATH BEFORE SEPARATION FROM SERVICE AND NORMAL RETIREMENT AGE. If the Executive dies in active service to the Bank before Normal Retirement Age, at the Executive's death the Executive's Beneficiary shall be entitled solely to the benefit, if any, provided by the Split Dollar Agreement and Endorsement attached to this Agreement as Addendum A instead of any benefit payable under this Agreement. If the Executive dies after Separation from Service or after attaining Normal Retirement Age, the Executive's Beneficiary shall be entitled to no benefits under the Split Dollar Agreement and Endorsement attached to this Agreement as Addendum A.

3.2 DEATH AFTER SEPARATION FROM SERVICE OR NORMAL RETIREMENT AGE. If the Executive dies after Normal Retirement Age or after Separation from Service occurring at any age, at the Executive's death the Executive's Beneficiary shall be entitled to the benefits, if any, that would have been payable to the Executive under Article 2 had the Executive survived. The benefits shall be payable to the Executive's Beneficiary in the same amounts they would have been paid to the Executive had the Executive survived, except that payments shall commence in the month after the Executive's death.

3.3 CHANGE-IN-CONTROL PAYOUT OF BENEFITS UNDER SECTION 3.2. If a Change in Control occurs while the Executive's Beneficiary is receiving the benefit provided by section 3.2, the Bank shall pay the remaining benefits to the Executive's Beneficiary in a single lump sum within three days after the Change in Control. The lump-sum payment shall be an amount equal to the Accrual Balance amount corresponding to the benefit being paid.

ARTICLE 4  
BENEFICIARIES

4.1 BENEFICIARY DESIGNATIONS. The Executive shall have the right to designate at any time a Beneficiary to receive any benefits payable under this Agreement at the Executive's death. The Beneficiary designated under this Agreement may be the same as or different from the beneficiary designation under any other benefit plan of the Bank in which the Executive participates.

4.2 BENEFICIARY DESIGNATION: CHANGE. The Executive shall designate a Beneficiary by completing and signing the Beneficiary Designation Form and delivering it to the Plan Administrator or its designated agent. The Executive's Beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Executive or if the Executive names a spouse as Beneficiary and the marriage is subsequently dissolved. The Executive shall have the right to change a Beneficiary by completing, signing, and otherwise complying with the terms of the Beneficiary Designation Form and the Plan Administrator's rules and procedures, as in effect from time to time. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall

be entitled to rely on the last Beneficiary Designation Form filed by the Executive and accepted by the Plan Administrator before the Executive's death.

4.3 ACKNOWLEDGMENT. No designation or change in designation of a Beneficiary shall be effective until received, accepted, and acknowledged in writing by the Plan Administrator or its designated agent.

4.4 NO BENEFICIARY DESIGNATION. If the Executive dies without a valid beneficiary designation, or if all designated Beneficiaries predecease the Executive, then the Executive's spouse shall be the designated Beneficiary. If the Executive has no surviving spouse, the benefits shall be made to the personal representative of the Executive's estate.

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4.5 FACILITY OF PAYMENT. If a benefit is payable to a minor, to a person declared incapacitated, or to a person incapable of handling the disposition of his or her property, the Bank may pay the benefit to the guardian, legal representative, or person having the care or custody of the minor, incapacitated person, or incapable person. The Bank may require proof of incapacity, minority, or guardianship as it may deem appropriate before distribution of the benefit. Distribution shall completely discharge the Bank from all liability for the benefit.

#### ARTICLE 5 GENERAL LIMITATIONS

5.1 TERMINATION FOR CAUSE. Despite any contrary provision of this Agreement, the Bank shall not pay any benefit under this Agreement and this Agreement shall terminate if Separation from Service is a Termination for Cause or if Separation from Service is an Early Termination occurring within ten years after the Effective Date. Likewise, the Beneficiary shall be entitled to no benefits under the Split Dollar Agreement attached to this Agreement as Addendum A and the Split Dollar Agreement also shall terminate if Separation from Service is a Termination for Cause or if Separation from Service is an Early Termination occurring within ten years after the Effective Date.

5.2 MISSTATEMENT. The Bank shall not pay any benefit under this Agreement and the Beneficiary shall be entitled to no benefits under the Split Dollar Agreement attached as Addendum A if the Executive makes any material misstatement of fact on any application or resume provided to the Bank or on any application for benefits provided by the Bank.

5.3 REMOVAL. If the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or (g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), all obligations of the Bank under this Agreement shall terminate as of the effective date of the order, and the Split Dollar Agreement also shall terminate as of the effective date of the order.

5.4 DEFAULT. Despite any contrary provision of this Agreement, if the Bank is in "default" or "in danger of default," as those terms are defined in section 3(x) of the Federal Deposit Insurance Act, 12 U.S.C. 1813(x), all obligations under this Agreement shall terminate.

5.5 FDIC OPEN-BANK ASSISTANCE. All obligations under this Agreement shall terminate, except to the extent determined that continuation of the contract is necessary for the continued operation of the Bank, when the Federal Deposit Insurance Corporation enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Federal Deposit Insurance Act section 13(c). 12 U.S.C. 1823(c). Rights of the parties that have already vested shall not be affected by such action, however.

#### ARTICLE 6 CLAIMS AND REVIEW PROCEDURES

6.1 CLAIMS PROCEDURE. A person or beneficiary ("claimant") who has not

received benefits under this Agreement that he or she believes should be paid shall make a claim for such benefits as follows -

6.1.1 Initiation - written claim. The claimant initiates a claim by submitting to the Administrator a written claim for the benefits. If the claim relates to the contents of a notice received by the claimant, the

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claim must be made within 60 days after the notice was received by the claimant. All other claims must be made within 180 days after the date of the event that caused the claim to arise. The claim must state with particularity the determination desired by the claimant.

6.1.2 Timing of Bank response. The Bank shall respond to the claimant within 90 days after receiving the claim. If the Bank determines that special circumstances require additional time for processing the claim, the Bank may extend the response period by an additional 90 days by notifying the claimant in writing before the end of the initial 90-day period that an additional period is required. The notice of extension must state the special circumstances and the date by which the Bank expects to render its decision.

6.1.3 Notice of decision. If the Bank denies part or all of the claim, the Bank shall notify the claimant in writing of the denial. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth -

- 6.1.3.1 the specific reasons for the denial,
- 6.1.3.2 a reference to the specific provisions of the Agreement on which the denial is based,
- 6.1.3.3 a description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed,
- 6.1.3.4 an explanation of the Agreement's review procedures and the time limits applicable to such procedures, and
- 6.1.3.5 a statement of the claimant's right to bring a civil action under ERISA section 502(a) following an adverse benefit determination on review.

6.2 REVIEW PROCEDURE. If the Bank denies part or all of the claim, the claimant shall have the opportunity for a full and fair review by the Bank of the denial, as follows -

6.2.1 Initiation - written request. To initiate the review, the claimant, within 60 days after receiving the Bank's notice of denial, must file with the Bank a written request for review.

6.2.2 Additional submissions - information access. The claimant shall then have the opportunity to submit written comments, documents, records, and other information relating to the claim. The Bank shall also provide the claimant, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

6.2.3 Considerations on review. In considering the review, the Bank shall take into account all materials and information the claimant submits relating to the claim, without regard to whether the information was submitted or considered in the initial benefit determination.

6.2.4 Timing of Bank response. The Bank shall respond in writing to the claimant within 60 days after receiving the request for review. If the Bank determines that special circumstances require additional time for

processing the claim, the Bank may extend the response period by an additional 60 days by notifying the claimant in writing before the end of the initial 60-day period that an additional period is required. The notice of extension must state the special circumstances and the date by which the Bank expects to render its decision.

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6.2.5 Notice of decision. The Bank shall notify the claimant in writing of its decision on review. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth -

- 6.2.5.1 the specific reason for the denial,
- 6.2.5.2 a reference to the specific provisions of the Agreement on which the denial is based,
- 6.2.5.3 a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits, and
- 6.2.5.4 a statement of the claimant's right to bring a civil action under ERISA section 502(a).

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#### ARTICLE 7 ADMINISTRATION OF AGREEMENT

7.1 PLAN ADMINISTRATOR DUTIES. This Agreement shall be administered by a Plan Administrator consisting of the board or such committee or person(s) as the board shall appoint. The Executive may be a member of the Plan Administrator. The Plan Administrator shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Agreement and (ii) decide or resolve any and all questions, including interpretations of this Agreement, as may arise in connection with the Agreement.

7.2 AGENTS. In the administration of this Agreement, the Plan Administrator may employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel, who may be counsel to the Bank.

7.3 BINDING EFFECT OF DECISIONS. The decision or action of the Plan Administrator concerning any question arising out of the administration, interpretation, and application of the Agreement and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Agreement. No Executive or Beneficiary shall be deemed to have any right, vested or non-vested, regarding the continued use of any previously adopted assumptions, including but not limited to the discount rate and calculation method employed in the determination of the Accrual Balance.

7.4 INDEMNITY OF PLAN ADMINISTRATOR. The Bank shall indemnify and hold harmless the members of the Plan Administrator against any and all claims, losses, damages, expenses, or liabilities arising from any action or failure to act with respect to this Agreement, except in the case of willful misconduct by the Plan Administrator or any of its members.

7.5 BANK INFORMATION. To enable the Plan Administrator to perform its functions, the Bank shall supply full and timely information to the Plan Administrator on all matters relating to the date and circumstances of the retirement, Disability, death, or Separation from Service of the Executive, and



such other pertinent information as the Plan Administrator may reasonably require.

ARTICLE 8  
MISCELLANEOUS

8.1 AMENDMENTS AND TERMINATION. Subject to section 8.15 of this Agreement, this Agreement may be amended solely by a written agreement signed by the Bank and by the Executive, and except for termination occurring under Article 5 this Agreement may be terminated solely by a written agreement signed by the Bank and by the Executive.

8.2 BINDING EFFECT. This Agreement shall bind the Executive, the Bank, and their beneficiaries, survivors, executors, successors, administrators, and transferees.

8.3 NO GUARANTEE OF EMPLOYMENT. This Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Bank nor does it interfere with the Bank's right to discharge the Executive. It also does not require the Executive to remain an employee or interfere with the Executive's right to terminate employment at any time.

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8.4 NON-TRANSFERABILITY. Benefits under this Agreement may not be sold, transferred, assigned, pledged, attached, or encumbered.

8.5 SUCCESSORS; BINDING AGREEMENT. By an assumption agreement in form and substance satisfactory to the Executive, the Bank shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Bank to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform this Agreement had no succession occurred.

8.6 TAX WITHHOLDING. The Bank shall withhold any taxes that are required to be withheld from the benefits provided under this Agreement.

8.7 APPLICABLE LAW. Except to the extent preempted by the laws of the United States of America, the validity, interpretation, construction, and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Idaho, without giving effect to the principles of conflict of laws of such state.

8.8 UNFUNDED ARRANGEMENT. The Executive and the Beneficiary are general unsecured creditors of the Bank for the payment of benefits under this Agreement. The benefits represent the mere promise by the Bank to pay benefits. The rights to benefits are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors. Any insurance on the Executive's life is a general asset of the Bank to which the Executive and Beneficiary have no preferred or secured claim.

8.9 SEVERABILITY. If any provision of this Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement, and each such other provision shall continue in full force and effect to the full extent consistent with law. If any provision of this Agreement is held invalid in part, such invalidity shall not affect the remainder of the provision, and the remainder of such provision together with all other provisions of this Agreement shall continue in full force and effect to the full extent consistent with law.

8.10 HEADINGS. The headings of sections herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any provision of this Agreement.

8.11 NOTICES. All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed, certified or registered mail, return receipt

requested, with postage prepaid. Unless otherwise changed by notice, notice shall be properly addressed to the Executive if addressed to the address of the Executive on the books and records of the Bank at the time of the delivery of such notice, and properly addressed to the Bank if addressed to the Board of Directors, Panhandle State Bank, Third and Oak Streets, Sandpoint, Idaho 83864.

8.12 ENTIRE AGREEMENT. This Agreement and the Split Dollar Agreement attached as Addendum A constitute the entire agreement between the Bank and the Executive concerning the subject matter. No rights are granted to the Executive under this Agreement other than those specifically set forth. The Executive acknowledges and agrees that this Agreement satisfies in full Intermountain Community Bancorp's and the Bank's obligation to provide a salary continuation plan for the benefit of the Executive, which obligation is stated in section 7 of the Executive Employment Agreement dated as of December 17, 2003 by and among the Executive, Intermountain Community Bancorp, and the Bank, as the same may be amended.

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8.13 PAYMENT OF LEGAL FEES. The Bank is aware that after a Change in Control management of the Bank could cause or attempt to cause the Bank to refuse to comply with its obligations under this Agreement, or institute or cause or attempt to cause the Bank to institute litigation seeking to have this Agreement declared unenforceable, or take or attempt to take other action to deny the Executive the benefits intended under this Agreement. In these circumstances the purpose of this Agreement would be frustrated. The Bank desires that the Executive not be required to incur the expenses associated with the enforcement of rights under this Agreement by litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. The Bank desires that the Executive not be required to negotiate any settlement of rights under threat of incurring expenses. Accordingly, if after a Change in Control (i) it appears to the Executive that the Bank has failed to comply with any of its obligations under this Agreement, or (ii) the Bank or any other person takes any action to declare this Agreement void or unenforceable, or institutes any litigation or other legal action designed to deny, diminish, or to recover from the Executive the benefits intended to be provided to the Executive hereunder, the Bank irrevocably authorizes the Executive from time to time to retain counsel of the Executive's choice, at the Bank's expense as provided in this section 8.13, to represent the Executive in any litigation or other legal action, whether by or against the Bank or any director, officer, stockholder, or other person affiliated with the Bank, in any jurisdiction. Despite any existing or previous attorney-client relationship between the Bank and any counsel chosen by the Executive under this section 8.13, the Bank irrevocably consents to the Executive entering into an attorney-client relationship with that counsel, and the Bank and the Executive agree that a confidential relationship shall exist between the Executive and that counsel. The fees and expenses of counsel selected from time to time by the Executive as herein above provided shall be paid or reimbursed to the Executive by the Bank on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by such counsel in accordance with such counsel's customary practices, up to a maximum aggregate amount of \$500,000, whether suit be brought or not, and whether or not incurred in trial, bankruptcy, or appellate proceedings. The Bank's obligation to pay the Executive's legal fees provided by this section 8.13 operates separately from and in addition to any legal fee reimbursement obligation the Bank or Intermountain Community Bancorp may have with the Executive under any separate employment, severance, or other agreement. Despite anything in this Agreement to the contrary however, the Bank shall not be required to pay or reimburse the Executive's legal expenses if doing so would violate section 18(k) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)] and Rule 359.3 of the Federal Deposit Insurance Corporation [12 CFR 359.3].

8.14 EXCISE TAX UNDER INTERNAL REVENUE CODE SECTIONS 280G AND 4999. (a) Partial reimbursement of the Excise Tax. If a Change in Control occurs the Executive may become entitled to acceleration of benefits under this Agreement or under another plan or agreement of or with the Bank or Intermountain Community Bancorp, including accelerated vesting of stock options and

acceleration of benefits under any other benefit, compensation, or incentive plan or arrangement with the Bank or Intermountain Community Bancorp (collectively, the "Total Benefits"). If a Change in Control occurs, Intermountain Community Bancorp and the Bank shall cause the certified public accounting firm retained by Intermountain Community Bancorp as of the date immediately before the Change in Control (the "Accounting Firm") to calculate the Total Benefits and any excise tax payable by the Executive under Code sections 280G and 4999 based upon the Total Benefits. If the Accounting Firm determines that an excise tax is payable, at the same time the Bank pays the Change in Control benefit under section 2.4 of this Agreement the Bank shall also pay or cause to be paid to the Executive an amount in cash equal to the excise tax calculated by the Accounting Firm (the "Excise Tax"). The Executive acknowledges and agrees that this section 8.14 provides for partial reimbursement only of the final excise tax that may be payable by him, and that additional unreimbursed excise taxes may be payable after taking into account the reimbursement payment provided under this section 8.14. The partial

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reimbursement of the excise tax under this section 8.14 shall be made in addition to the amount set forth in section 2.4.

(b) Calculating the Excise Tax. For purposes of determining whether any of the Total Benefits will be subject to the Excise Tax and for purposes of determining the amount of the Excise Tax,

- 1) Determination of "parachute payments" subject to the Excise Tax: any other payments or benefits received or to be received by the Executive in connection with a Change in Control or the Executive's Separation from Service (whether under the terms of this Agreement or any other agreement, stock option plan or any other benefit plan or arrangement with the Bank or Intermountain Community Bancorp, any person whose actions result in a Change in Control or any person affiliated with the Bank, Intermountain Community Bancorp, or such person) shall be treated as "parachute payments" within the meaning of Code section 280G(b)(2), and all "excess parachute payments" within the meaning of section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of the Accounting Firm such other payments or benefits do not constitute (in whole or in part) parachute payments, or such excess parachute payments represent (in whole or in part) reasonable compensation for services actually rendered within the meaning of Code section 280G(b)(4) in excess of the base amount (as defined in Code section 280G(b)(3)), or are otherwise not subject to the Excise Tax,
- 2) Calculation of benefits subject to the Excise Tax: the amount of the Total Benefits that shall be treated as subject to the Excise Tax shall be equal to the lesser of (i) the total amount of the Total Benefits reduced by the amount of such Total Benefits that in the opinion of the Accounting Firm are not parachute payments, or (ii) the amount of excess parachute payments within the meaning of section 280G(b)(1) (after applying clause (1), above), and
- 3) Value of noncash benefits and deferred payments: the value of any noncash benefits or any deferred payment or benefit shall be determined by the Accounting Firm in accordance with the principles of Code sections 280G(d)(3) and (4).

(c) Assumed marginal income tax rate. For purposes of determining the amount of the partial Excise Tax reimbursement payment to be made under this section 8.14, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the partial Excise Tax reimbursement under this section 8.14 is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the date of Separation from Service, net of the reduction in federal income taxes that can be obtained from deduction of such state and local taxes (calculated by assuming that any

reduction under Code section 68 in the amount of itemized deductions allowable to the Executive applies first to reduce the amount of such state and local income taxes that would otherwise be deductible by the Executive, and applicable federal FICA and Medicare withholding taxes).

(d) Accounting firm's determinations are final and binding. All determinations made by the Accounting Firm under this section 8.14 shall be final and binding on the Bank, Intermountain Community Bancorp, and the Executive. All determinations required to be made under this section 8.14 - including the assumptions used to calculate Total Benefits and the Excise Tax - shall be made by the Accounting Firm, which shall provide detailed supporting calculations both to the Bank and the Executive.

8.15 TERMINATION OR MODIFICATION OF AGREEMENT BECAUSE OF CHANGES IN TAX STATUTES, RULES, OR REGULATIONS. The Bank is entering into this Agreement on the assumption that certain existing tax statutes, rules, and regulations will continue in effect in their current form. If that assumption materially changes and the change has a material detrimental effect on this Agreement, the Bank reserves the right to terminate or modify this Agreement accordingly, subject to obtaining the written consent of the Executive, which shall not be unreasonably withheld. This section 8.15 shall become null and void effective immediately upon a Change in Control.

IN WITNESS WHEREOF, the Executive and a duly authorized Bank officer have executed this Amended Salary Continuation Agreement as of the date first written above.

THE EXECUTIVE:

THE BANK:  
PANHANDLE STATE BANK

-----  
Jerrold B. Smith

By: -----

Its: -----

Despite any existing or previous attorney-client relationship between Intermountain Community Bancorp and any counsel chosen by the Executive under section 8.13, Intermountain Community Bancorp irrevocably consents to the Executive's entering into an attorney-client relationship with that counsel, and Intermountain Community Bancorp agrees that a confidential relationship shall exist between the Executive and that counsel.

INTERMOUNTAIN COMMUNITY BANCORP

By: -----

Its: -----

BENEFICIARY DESIGNATION  
PANHANDLE STATE BANK  
AMENDED SALARY CONTINUATION AGREEMENT

I, Jerrold B. Smith, designate the following as beneficiary of any death benefits under this Amended Salary Continuation Agreement -

Primary: \_\_\_\_\_  
\_\_\_\_\_

Contingent :

NOTE: TO NAME A TRUST AS BENEFICIARY, PLEASE PROVIDE THE NAME OF THE TRUSTEE(S) AND THE EXACT NAME AND DATE OF THE TRUST AGREEMENT.

I understand that I may change these beneficiary designations by filing a new written designation with the Bank. I further understand that the designations will be automatically revoked if the beneficiary predeceases me, or if I have named my spouse as beneficiary and our marriage is subsequently dissolved.

Signature: /s/

-----  
 Jerrold B. Smith

Date: \_\_\_\_\_, 2007

Accepted by the Bank this \_\_\_\_\_ day of \_\_\_\_\_, 2007

By: /s/

Print Name:

Title:

SCHEDULE A  
 PANHANDLE STATE BANK  
 SALARY CONTINUATION AGREEMENT  
 JERROLD B. SMITH

PLAN YEAR	PLAN YEAR ENDING DECEMBER 31,	AGE AT PLAN YEAR END	ACCRUAL BALANCE (1)	VESTED ACCRUAL BALANCE	EARLY TERMINATION ANNUAL BENEFIT PAYABLE AT NORMAL RETIREMENT AGE (2)	DISABILITY ANNUAL BENEFIT PAYABLE AT NORMAL RETIREMENT AGE	CHANGE-1 CONTROL BENEFIT PAYABLE LUMP SUM
1	2002	46	\$ 21,560	\$ 0	\$ 0	\$ 7,398	\$ 323,4
2	2003	47	\$ 46,139	\$ 0	\$ 0	\$ 14,795	\$ 346,0
3	2004	48	\$ 74,053	\$ 0	\$ 0	\$ 22,193	\$ 370,2
4	2005	49	\$ 105,650	\$ 0	\$ 0	\$ 29,590	\$ 396,1
5	2006	50	\$ 141,306	\$ 0	\$ 0	\$ 36,988	\$ 423,9
6	2007	51	\$ 181,437	\$ 0	\$ 0	\$ 44,385	\$ 453,5
7	2008	52	\$ 226,494	\$ 0	\$ 0	\$ 51,783	\$ 485,3
8	2009	53	\$ 276,970	\$ 0	\$ 0	\$ 59,180	\$ 519,3
9	2010	54	\$ 333,403	\$ 0	\$ 0	\$ 66,578	\$ 555,6
10	2011	55	\$ 396,379	\$ 0	\$ 0	\$ 73,975	\$ 594,5

11	2012	56	\$ 466,538	\$466,538	\$ 81,373	\$ 81,373	\$ 636,1
12	2013	57	\$ 544,577	\$544,577	\$ 88,770	\$ 88,770	\$ 680,7
13	2014	58	\$ 631,256	\$631,256	\$ 96,168	\$ 96,168	\$ 728,3
14	2015	59	\$ 727,401	\$727,401	\$ 103,566	\$ 103,566	\$ 779,3
15	2016	60	\$ 833,913	\$833,913	\$ 110,963	\$ 110,963	\$ 833,9
16	2017	61	\$ 773,557	\$773,557			
17	2018	62	\$ 708,975	\$708,975			
18	2019	63	\$ 639,873	\$639,873			
19	2020	64	\$ 565,934	\$565,934			
20	2021	65	\$ 486,819	\$486,819			
21	2022	66	\$ 402,166	\$402,166			
22	2023	67	\$ 311,587	\$311,587			

PLAN YEAR	PLAN YEAR ENDING DECEMBER 31,	AGE AT PLAN YEAR END	ACCRUAL BALANCE (1)	VESTED ACCRUAL BALANCE	EARLY TERMINATION ANNUAL BENEFIT PAYABLE AT NORMAL RETIREMENT AGE (2)	DISABILITY ANNUAL BENEFIT PAYABLE AT NORMAL RETIREMENT AGE	CHANGE-IN CONTROL BENEFIT PAYABLE LUMP SUM
23	2024	68	\$ 214,668	\$214,668			
24	2025	69	\$ 110,964	\$110,964			
25	2026	70	\$ 0	\$0			

(1) Calculations are approximations. Benefit calculations are based on prior year-end accrual balances. The accrual balance reflects payment at the beginning of each month during retirement, beginning in October 2016.

(2) Early termination benefits are not payable if Termination of Employment occurs within 10 years after the Effective Date of the Agreement.

ADDENDUM A  
 PANHANDLE STATE BANK  
 SPLIT DOLLAR AGREEMENT

THIS SPLIT DOLLAR AGREEMENT is entered into as of this \_\_\_\_ day of \_\_\_\_\_, 2003, by and between Panhandle State Bank, an Idaho-chartered, FDIC-insured bank with its main office in Sandpoint, Idaho (the "Bank") and Jerrold B. Smith, President of the Bank (the "Executive"). This Split Dollar Agreement shall append the Split Dollar Policy Endorsement entered into on even date herewith, or as subsequently amended, by and between the aforementioned

parties.

To encourage the Executive to remain an employee of the Bank, the Bank is willing to divide the death proceeds of a life insurance policy on the Executive's life to be effective until the Executive's Normal Retirement Age of 60. The Bank will pay life insurance premiums from its general assets.

#### ARTICLE 1 GENERAL DEFINITIONS

Capitalized terms not otherwise defined in this Split Dollar Agreement are used herein as defined in the Salary Continuation Agreement dated as of the date of this Split Dollar Agreement between the Bank and the Executive. The following terms shall have the meanings specified:

- 1.1 Administrator means the administrator described in Article 7.
- 1.2 Executive's Interest means the benefit set forth in Section 2.2.
- 1.3 Insured means the Executive.
- 1.4 Insurer means each life insurance carrier for which there is a Split Dollar Policy Endorsement attached to this Split Dollar Agreement.
- 1.5 Net Death Proceeds means the total death proceeds of the Policy minus the cash surrender value.
- 1.6 Policy means the specific life insurance policy or policies issued by the Insurer(s).
- 1.7 Split Dollar Policy Endorsement means the form required by the Administrator or the Insurer to indicate the Executive's interest, if any, in a Policy on the Executive's life.

#### ARTICLE 2 POLICY OWNERSHIP/INTERESTS

2.1 Bank Ownership. The Bank is the sole owner of the Policy and shall have the right to exercise all incidents of ownership. The Bank shall be the beneficiary of any death proceeds remaining after the Executive's interest has been paid under Section 2.2 of this Split Dollar Agreement.

2.2 Executive's Interest. The Executive shall have the right to designate the beneficiary(ies) of the Executive's Interest, which shall be an amount equal to 833,913 of the Net Death Proceeds. The Executive shall also have the right to elect and change settlement options specified in the Policy that may be permitted. However, the Executive, the Executive's transferee, or the Executive's beneficiary(ies) shall have no rights or interests in the Policy for that portion of the death proceeds designated in this Section 2.2 if the Executive is not in the full-time employment of the Bank at the time of death, except for reason of a leave of absence approved by the Bank, or if benefits under the Salary Continuation Agreement of even date herewith are denied under Article 5 of that Salary Continuation Agreement.

2.3 Option to Purchase. The Bank shall not sell, surrender, or transfer ownership of the Policy while this Split Dollar Agreement is in effect without first giving the Executive or the Executive's transferee a right of first refusal to purchase the Policy for the Policy's interpolated terminal reserve value. The right of first refusal to

purchase the Policy must be exercised within 60 days from the date the Bank gives written notice of the Bank's intention to sell, surrender or transfer ownership of the Policy. This provision shall not impair the right of the Bank to terminate this Split Dollar Agreement.

2.4 Comparable Coverage. Upon execution of this Split Dollar Agreement, the Bank shall maintain the Policy in full force and effect, and the Bank shall not amend, terminate, or otherwise abrogate the Executive's interest in the Policy unless the Bank (a) replaces the Policy with a comparable insurance policy to cover the benefit provided under this Split Dollar Agreement and (b) executes a new Split Dollar Agreement and Endorsement for the comparable insurance policy. The Policy or any comparable policy shall be subject to the claims of the Bank's creditors.

ARTICLE 3  
PREMIUMS

3.1 Premium Payment. The Bank shall pay any premiums due on the Policy.

3.2 Imputed Income. The Bank shall impute income to the Executive in an amount equal to (a) the current term rate for the Executive's age, multiplied by (b) the net death benefit payable to the Executive's beneficiary(ies). The "current term rate" is the minimum amount required to be imputed under Revenue Rulings 64-328 and 66-110, or any subsequent applicable authority.

ARTICLE 4  
ASSIGNMENT

The Executive may assign without consideration all interests in the Policy and in this Split Dollar Agreement to any person, entity, or trust. If the Executive transfers all of the Executive's interest in the Policy, then all of the Executive's interest in the Policy and in the Split Dollar Agreement shall be vested in the Executive's transferee, who shall be substituted as a party hereunder, and the Executive shall have no further interest in the Policy or in this Split Dollar Agreement.

ARTICLE 5  
INSURER

The Insurer shall be bound only by the terms of the Policy. Any payments the Insurer makes or actions it takes in accordance with the Policy shall fully discharge it from all claims, suits, and demands of all entities or persons. The Insurer shall not be bound by or be deemed to have notice of the provisions of this Split Dollar Agreement.

ARTICLE 6  
CLAIMS PROCEDURE

6.1 Claims Procedure. A person or beneficiary (a "claimant") who has not received benefits under the Split Dollar Agreement that he or she believes should be paid shall make a claim for such benefits as follows:

6.1.1 Initiation - Written Claim. The claimant initiates a claim by submitting to the Bank a written claim for the benefits.

6.1.2 Timing of Bank Response. The Bank shall respond to such claimant within 90 days after receiving the claim. If the Bank determines that special circumstances require additional time for processing the claim, the Bank can extend the response period by an additional 90 days by notifying the claimant in writing, prior to the end of the initial 90-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Bank expects to render its decision.

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6.1.3 Notice of Decision. If the Bank denies part or all of the claim, the Bank shall notify the claimant in writing of such



denial. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- 6.1.3.1 The specific reasons for the denial,
- 6.1.3.2 A reference to the specific provisions of the Split Dollar Agreement on which the denial is based,
- 6.1.3.3 A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed,
- 6.1.3.4 An explanation of the Split Dollar Agreement's review procedures and the time limits applicable to such procedures, and
- 6.1.3.5 A statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

6.2 Review Procedure. If the Bank denies part or all of the claim, the claimant shall have the opportunity for a full and fair review by the Bank of the denial, as follows:

- 6.2.1 Initiation - Written Request. To initiate the review, the claimant, within 60 days after receiving the Bank's notice of denial, must file with the Bank a written request for review.
- 6.2.2 Additional Submissions - Information Access. The claimant shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Bank shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.
- 6.2.3 Considerations on Review. In considering the review, the Bank shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.
- 6.2.4 Timing of Bank Response. The Bank shall respond in writing to such claimant within 60 days after receiving the request for review. If the Bank determines that special circumstances require additional time for processing the claim, the Bank can extend the response period by an additional 60 days by notifying the claimant in writing, prior to the end of the initial 60-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Bank expects to render its decision.
- 6.2.5 Notice of Decision. The Bank shall notify the claimant in writing of its decision on review. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:
  - 6.2.5.1 The specific reason for the denial,
  - 6.2.5.2 A reference to the specific provisions of the Split Dollar Agreement on which the denial is based,
  - 6.2.5.3 A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other

information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits, and

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6.2.5.4 A statement of the claimant's right to bring a civil action under ERISA Section 502(a).

ARTICLE 7  
ADMINISTRATION OF SPLIT DOLLAR AGREEMENT

7.1 Administrator Duties. This Split Dollar Agreement shall be administered by an Administrator, which shall consist of the board or such committee as the board shall appoint. The Executive may be a members of the Administrator. The Administrator shall also have the discretion and authority to (a) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Split Dollar Agreement and (b) decide or resolve any and all questions, including interpretations of this Split Dollar Agreement, as may arise in connection with the Split Dollar Agreement.

7.2 Agents. In the administration of this Split Dollar Agreement, the Administrator may employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel, who may be counsel to the Bank.

7.3 Binding Effect of Decisions. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation, and application of this Split Dollar Agreement and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Split Dollar Agreement.

7.4 Indemnity of Administrator. The Bank shall indemnify and hold harmless the members of the Administrator against any and all claims, losses, damages, expenses, or liabilities arising from any action or failure to act with respect to this Split Dollar Agreement, except in the case of willful misconduct by the Administrator or any of its members.

7.5 Information. To enable the Administrator to perform its functions, the Bank shall supply full and timely information to the Administrator on all matters relating to the date and circumstances of the retirement, death, or Termination of Employment of the Executive and such other pertinent information as the Administrator may reasonably require.

ARTICLE 8  
MISCELLANEOUS

8.1 Amendment and Termination. Subject to Section 8.11 of this Split Dollar Agreement, this Split Dollar Agreement may be amended or terminated solely by a writing signed by the Bank and the Executive. However, this Split Dollar Agreement will terminate automatically and the Executive's interest shall be forfeited if benefits under the Salary Continuation Agreement are neither paid nor payable because of termination under Article 5 of the Salary Continuation Agreement. This Split Dollar Agreement shall also terminate upon the occurrence of any one of the following:

- (a) Surrender, lapse, or other termination of the Policy by the Bank, or
- (b) Distribution of the death benefit proceeds in accordance with Section 2.2 above.

8.2 Binding Effect. This Split Dollar Agreement shall bind the Executive and the Bank and their beneficiaries, survivors, executors, administrators, transferees, and any Policy beneficiary.

8.3 No Guarantee of Employment. This Split Dollar Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Bank, nor does it interfere with the Bank's right to discharge the Executive. It also does not require the Executive to remain an employee nor interfere with the Executive's right to terminate employment at any time.

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8.4 Successors; Binding Agreement. By an assumption agreement in form and substance satisfactory to the Executive, the Bank shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Bank to expressly assume and agree to perform this Split Dollar Agreement in the same manner and to the same extent that the Bank would be required to perform this Split Dollar Agreement if no succession had occurred. The Bank's failure to obtain such an assumption agreement before succession becomes effective shall be considered a breach of the Split Dollar Agreement and shall entitle the Executive to the Change-in-Control Benefits payable under Section 2.4 of the Salary Continuation Agreement between the Bank and the Executive of even date herewith.

8.5 Applicable Law. The Split Dollar Agreement and all rights hereunder shall be governed by and construed according to the laws of the State of Idaho, except to the extent preempted by the laws of the United States of America.

8.6 Entire Agreement. This Split Dollar Agreement and the Salary Continuation Agreement constitute the entire agreement between the Bank and the Executive concerning the subject matter hereof. No rights are granted to the Executive under this Split Dollar Agreement other than those specifically set forth herein.

8.7 Severability. If for any reason any provision of this Split Dollar Agreement is held invalid, such invalidity shall not affect any other provision of this Split Dollar Agreement not held invalid, and to the full extent consistent with the law each such other provision shall continue in full force and effect. If any provision of this Split Dollar Agreement is held invalid in part, such invalidity shall not affect the remainder of such provision, and to the full extent consistent with the law the remainder of such provision, together with all other provisions of this Split Dollar Agreement, shall continue in full force and effect.

8.8 Headings. The caption headings herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any provision of this Split Dollar Agreement.

8.9 Notices. All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed, certified or registered mail, return receipt requested, with postage prepaid, to the following addresses or to such other address as either party may designate by like notice.

- (a) If to the Bank, to:  
Board of Directors  
Panhandle State Bank  
Third and Oak Streets  
Sandpoint, Idaho 83864
- (b) If to the Executive,  
to: Jerrold B. Smith  
Panhandle State Bank  
Third and Oak Streets  
Sandpoint, Idaho 83864

and to such other or additional person or persons as either party shall have designated to the other party in writing by like notice.

8.10 IRC Section 1035 Exchanges. The Executive recognizes and agrees that the Bank may after this Split Dollar Agreement is adopted wish to exchange the Policy for another contract of life insurance insuring the Executive's life. Provided that the Policy is replaced (or intended to be replaced) with a comparable policy of life insurance consistent with the requirements of section 2.4 herein, the Executive agrees to provide medical information and cooperate with medical insurance-related testing required by a prospective Insurer for implementing the Policy or, if necessary, for modifying or updating to a comparable Insurer per section 2.4. The Executive's

inability to pass an insurability determination for purposes of obtaining a comparable replacement Policy does not permit the Bank to abrogate the Executive's interest in the Policy without the Executive's consent.

8.11 Termination or Modification of Split Dollar Agreement Because of Changes in Tax Statutes, Rules, or Regulations. The Bank is entering into this Split Dollar Agreement on the assumption that certain existing tax statutes, rules, and regulations will continue in effect in their current form. If that assumption materially changes and the change has a material detrimental effect on this Split Dollar Agreement, the Bank reserves the right to terminate or modify this Split Dollar Agreement accordingly, subject to obtaining the written consent of the Executive, which shall not be unreasonably withheld. This Section 8.11 shall become null and void effective immediately upon a Change in Control.

IN WITNESS WHEREOF, the Bank and the Executive have executed this Split Dollar Agreement as of the date first written above.

THE EXECUTIVE:

THE BANK:

PANHANDLE STATE BANK

\_\_\_\_\_  
Jerrold B. Smith

By: \_\_\_\_\_  
Its: \_\_\_\_\_

AGREEMENT TO COOPERATE WITH INSURANCE UNDERWRITING INCIDENT TO I.R.C. SECTION 1035 EXCHANGE

I acknowledge that I have read the Split Dollar Agreement and agree to be bound by its terms, particularly the covenant on my part set forth in section 8.10 of the Split Dollar Agreement to provide medical information and cooperate with medical insurance-related testing required by an Insurer to issue a comparable insurance policy to cover the benefit provided under this Split Dollar Agreement.

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Executive

PANHANDLE STATE BANK  
SPLIT DOLLAR POLICY ENDORSEMENT

Insured: Jerrold B. Smith  
Policy No. ZUA391031

Insurer: West Coast Life Insurance Company

Pursuant to the terms of the Panhandle State Bank Split Dollar Agreement dated as of \_\_\_\_\_, 2003, the undersigned Owner requests that the above-referenced policy issued by the Insurer provide for the following beneficiary designation and limited contract ownership rights to the Insured:

1. Upon the death of the Insured, proceeds shall be paid in one sum to the Owner, its successors or assigns, to the extent of its interest in the

policy. It is hereby provided that the Insurer may rely solely upon a statement from the Owner as to the amount of proceeds it is entitled to receive under this paragraph.

2. Any proceeds at the death of the Insured in excess of the amount paid under the provisions of the preceding paragraph shall be paid in one sum to:

\_\_\_\_\_  
PRIMARY BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

\_\_\_\_\_  
CONTINGENT BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

The exclusive right to change the beneficiary for the proceeds payable under this paragraph, to elect any optional method of settlement for the proceeds paid under this paragraph which are available under the terms of the policy, and to assign all rights and interests granted under this paragraph are hereby granted to the Insured. The sole signature of the Insured shall be sufficient to exercise said rights. The Owner retains all contract rights not granted to the Insured under this paragraph.

3. It is agreed by the undersigned that this designation and limited assignment of rights shall be subject in all respects to the contractual terms of the policy.

4. Any payment directed by the Owner under this endorsement shall be a full discharge of the Insurer, and such discharge shall be binding on all parties claiming any interest under the policy.

The undersigned for the Owner is signing in a representative capacity and warrants that he or she has the authority to bind the entity on whose behalf this document is being executed.

Signed at \_\_\_\_\_, Sandpoint, Idaho, this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

INSURED:

OWNER:

Panhandle State Bank

\_\_\_\_\_  
Jerrold B. Smith

By: \_\_\_\_\_

Its: \_\_\_\_\_

PANHANDLE STATE BANK  
SPLIT DOLLAR POLICY ENDORSEMENT

Insured: Jerrold B. Smith  
Policy No. 665519

Insurer: Clarica Life Insurance Company

Pursuant to the terms of the Panhandle State Bank Split Dollar Agreement dated as of \_\_\_\_\_, 2003, the undersigned Owner requests that the above-referenced policy issued by the Insurer provide for the following beneficiary designation and limited contract ownership rights to the Insured:

1. Upon the death of the Insured, proceeds shall be paid in one sum to the Owner, its successors or assigns, to the extent of its interest in the policy. It is hereby provided that the Insurer may rely solely upon a statement from the Owner as to the amount of proceeds it is entitled to receive under this paragraph.

2. Any proceeds at the death of the Insured in excess of the amount paid under the provisions of the preceding paragraph shall be paid in one sum to:

\_\_\_\_\_  
PRIMARY BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

\_\_\_\_\_  
CONTINGENT BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

The exclusive right to change the beneficiary for the proceeds payable under this paragraph, to elect any optional method of settlement for the proceeds paid under this paragraph which are available under the terms of the policy, and to assign all rights and interests granted under this paragraph are hereby granted to the Insured. The sole signature of the Insured shall be sufficient to exercise said rights. The Owner retains all contract rights not granted to the Insured under this paragraph.

3. It is agreed by the undersigned that this designation and limited assignment of rights shall be subject in all respects to the contractual terms of the policy.

4. Any payment directed by the Owner under this endorsement shall be a full discharge of the Insurer, and such discharge shall be binding on all parties claiming any interest under the policy.

The undersigned for the Owner is signing in a representative capacity and warrants that he or she has the authority to bind the entity on whose behalf this document is being executed.

Signed at \_\_\_\_\_, Sandpoint, Idaho, this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

INSURED:

OWNER:

Panhandle State Bank

By: \_\_\_\_\_

\_\_\_\_\_  
Jerrold B. Smith

Its: \_\_\_\_\_

PANHANDLE STATE BANK  
SPLIT DOLLAR POLICY ENDORSEMENT

Insured: Jerrold B. Smith  
Policy No. C6475175

Insurer: Ohio National Life Insurance Company

Pursuant to the terms of the Panhandle State Bank Split Dollar Agreement dated as of \_\_\_\_\_, 2003, the undersigned Owner requests that the above-referenced policy issued by the Insurer provide for the following beneficiary designation and limited contract ownership rights to the Insured:

1. Upon the death of the Insured, proceeds shall be paid in one sum to the Owner, its successors or assigns, to the extent of its interest in the policy. It is hereby provided that the Insurer may rely solely upon a statement from the Owner as to the amount of proceeds it is entitled to receive under this paragraph.

2. Any proceeds at the death of the Insured in excess of the amount paid under the provisions of the preceding paragraph shall be paid in one sum to:

\_\_\_\_\_  
PRIMARY BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

\_\_\_\_\_  
CONTINGENT BENEFICIARY, RELATIONSHIP/SOCIAL SECURITY NUMBER

The exclusive right to change the beneficiary for the proceeds payable under this paragraph, to elect any optional method of settlement for the proceeds paid

under this paragraph which are available under the terms of the policy, and to assign all rights and interests granted under this paragraph are hereby granted to the Insured. The sole signature of the Insured shall be sufficient to exercise said rights. The Owner retains all contract rights not granted to the Insured under this paragraph.

3. It is agreed by the undersigned that this designation and limited assignment of rights shall be subject in all respects to the contractual terms of the policy.

4. Any payment directed by the Owner under this endorsement shall be a full discharge of the Insurer, and such discharge shall be binding on all parties claiming any interest under the policy.

The undersigned for the Owner is signing in a representative capacity and warrants that he or she has the authority to bind the entity on whose behalf this document is being executed.

Signed at \_\_\_\_\_, Sandpoint, Idaho, this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

INSURED:

OWNER:

Panhandle State Bank

By: \_\_\_\_\_

\_\_\_\_\_  
Jerrold B. Smith

Its: \_\_\_\_\_

[\(Back To Top\)](#)

## Section 9: EX-10.12 (EXHIBIT 10.12)

## Exhibit 10.12

**EXECUTIVE SEVERANCE AGREEMENT  
(Amended and Restated)**

This Amended and Restated EXECUTIVE SEVERANCE AGREEMENT ("Agreement") is dated as of January 1, 2008. The parties to this Agreement ("Parties") are PANHANDLE STATE BANK ("PSB"), and **Doug Wright** ("Executive"). This Agreement has been ratified by INTERMOUNTAIN COMMUNITY BANCORP ("IMCB"), the parent company of PSB.

- A. Executive is employed by PSB in a managerial capacity, presently holding the position of **Executive Vice President, Chief Financial Officer, Panhandle State Bank**.
- B. PSB wishes to ensure the continued availability of Executive's services in the event of a change in the control of PSB, thereby allowing PSB to maximize the benefits obtainable from any such change. To that end, PSB desires to provide incentive for Executive's continued employment with PSB.
- C. This amendment and restatement of Executive Severance Agreement is intended to incorporate and make such modifications as shall be necessary to comply with Internal Revenue Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury.

NOW THEREFORE, PSB and Executive agree as follows:

**Agreement**

1. **Effective Date and Term.** As of the Effective Date, this Agreement shall be a binding obligation of the parties, not subject to revocation or amendment except by mutual consent or in accordance with its terms. The term of this Agreement ("Term") shall commence as of the Effective Date and shall expire upon Executive's termination of employment with PSB. Notwithstanding the preceding, if a definitive agreement providing for a Change in Control (defined below) is entered into (i) on or before the expiration of the Term or (ii) within twelve (12) months after Executive's involuntary termination other than for Cause, Disability, Retirement or death, then expiration of such Term shall be extended through the Severance Protection Period (defined below).
  2. **Commitment of Executive.** In the event that any person extends any proposal or offer which is intended to or may result in a Change in Control, defined below (a "Change in Control Proposal"), Executive shall, at PSB's request, assist PSB and/or IMCB in evaluating such proposal or offer. Further, as a condition to receipt of the Severance Payment (defined below), Executive agrees not to voluntarily resign (including resignation for Good Reason) Executive's position with PSB during any period from the receipt of a specific Change in Control Proposal up to the consummation or abandonment of the transaction contemplated by such Proposal.
-



### 3. Severance Payment.

- a) Payment Events. Subject to the requirements of Section 2 of this Agreement, in the event of involuntary termination of Executive's employment with PSB, other than for Cause, Disability, Retirement, (each defined below) or death, or in the event of voluntary termination for Good Reason (defined below), (i) within the Severance Protection Period after a Change in Control, (ii) within twelve (12) months before a definitive agreement providing for a Change in Control is entered into or (iii) within the period between the date a definitive agreement is executed and the effective date of the Change of Control, PSB will pay Executive a severance payment in the amount determined pursuant to the next section ("Severance Payment"), payable on the later of the date of termination, the effective date of the Change in Control, or the first day of the seventh month after the month in which the Executive's termination of employment occurs. The "Severance Protection Period" shall be the period beginning on the effective date of the Change of Control and continuing thereafter for twenty-four (24) months.
- b) Amount of Payment. The Severance Payment shall be an amount equal to two (2) times the average of the total base compensation and short term bonus received by Executive for each of the two most recent calendar years.
- c) Partial Reimbursement of Excise Tax Under IRS Code Sections 280G and 4999. If a Change in Control occurs the Executive may become entitled to acceleration of benefits under this Agreement or under any other plan or agreement of or with PSB or IMCB, including accelerated vesting of stock options and acceleration of benefits under any other benefit, compensation, or incentive plan or arrangement with PSB or IMCB (collectively, the "Total Benefits"). If a Change in Control occurs, IMCB and PSB shall cause the certified public accounting firm retained by IMCB as of the date immediately before the Change in Control (the "Accounting Firm") to calculate the Total Benefits and any excise tax payable by the Executive under sections 280G and 4999 based upon the Total Benefits. If the Accounting Firm determines that an excise tax is payable, at the same time PSB pays the Change in Control benefit under Section 3 of this Agreement, and not before, PSB shall also pay to the Executive an amount in cash equal to the excise tax calculated by the Accounting Firm (the "Excise Tax"). The Executive acknowledges and agrees that this Sub-section c) provides for partial reimbursement only of the final excise tax that may be payable by him, and that additional unreimbursed excise taxes may be payable by him after taking into account the reimbursement payment provided under this Sub-section c). The partial reimbursement of the excise tax under this Sub-section c) shall be made in addition to the amount set forth in Sub-sections a) and b).

- d) Calculating the Excise Tax. For purposes of determining whether any of the Total Benefits will be subject to the Excise Tax and for purposes of determining the amount of the Excise Tax,

*1) Determination of "Parachute Payments" Subject to the Excise Tax:* any other payments or benefits received or to be received by the Executive in connection with a Change in Control or the Executive's Termination of Employment (whether under the terms of this Agreement or any other agreement, stock option plan or any other benefit plan or arrangement with PSB or IMCB, any person whose actions result in a Change in Control or any person affiliated with PSB, IMCB, or such person) shall be treated as "parachute payments" within the meaning of section 280G(b)(2) of the Internal Revenue Code, and all "excess parachute payments" within the meaning of section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of the Accounting Firm such other payments or benefits do not constitute (in whole or in part) parachute payments, or such excess parachute payments represent (in whole or in part) reasonable compensation for services actually rendered within the meaning of section 280G(b)(4) of the Internal Revenue Code in excess (as defined in section 280G(b)(3) of the Internal Revenue Code), or are otherwise not subject to the Excise Tax,

*2) Calculation of Benefits Subject to Excise Tax:* the amount of the Total Benefits that shall be treated as subject to the Excise Tax shall be equal to the lesser of (a) the total amount of the Total Benefits reduced by the amount of such Total Benefits that in the opinion of the Accounting Firm are not parachute payments, or (b) the amount of excess parachute payments within the meaning of section 280G(b)(1) (after applying clause (i), above), and

*3) Value of Noncash Benefits and Deferred Payments:* the value of any noncash benefits or any deferred payment or benefit shall be determined by the Accounting Firm in accordance with the principles of sections 280G(d)(3) and (4) of the Internal Revenue Code.

- e) Assumed Marginal Income Tax Rate. For purposes of determining the amount of the partial Excise Tax reimbursement payment to be made under Sub-section c), the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the partial Excise Tax reimbursement under Sub-section c) is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the date of Termination of Employment, net of the reduction in federal income taxes that can be obtained from deduction of such state and local taxes (calculated by assuming that any reduction under section 68 of the Internal Revenue Code in the amount of itemized deductions allowable to the Executive applies first to reduce the amount of such state and local income taxes that would

otherwise be deductible by the Executive, and applicable federal FICA and Medicare withholding taxes).

- f) Accounting Firm's Determinations Are Final and Binding. All determinations made by the Accounting Firm under this Section 3 shall be final and binding on PSB, IMCB, and the Executive. All determinations required to be made under Sub-sections c) through f), inclusive – including the assumptions used to calculate Total Benefits and the Excise Tax – shall be made by the Accounting Firm, which shall provide detailed supporting calculations both to PSB and the Executive.

#### 4. Definitions

- a) IMCB. "IMCB" means Intermountain Community Bancorp.
- b) PSB. "PSB" means Panhandle State Bank. PSB is a wholly owned subsidiary of IMCB.
- c) Cause. "Cause" shall mean termination of the Executive's employment for any of the following reasons:
- 1) the Executive's gross negligence or gross neglect of duties or intentional and material failure to perform stated duties after written notice thereof, or;
  - 2) disloyalty or dishonesty by the Executive in the performance of the Executive's duties, or a breach of the Executive's fiduciary duties for personal profit, in any case whether in the Executive's capacity as a director or officer, or
  - 3) intentional wrongful damage by the Executive to the business or property of the Bank or its affiliates, including without limitation the reputation of the Bank, which in the judgment of the Bank causes material harm to the Bank or affiliates, or
  - 4) a willful violation by the Executive of any applicable law or significant policy of the Bank or an affiliate that, in the Bank's judgment, results in an adverse effect on the Bank or the affiliate, regardless of whether the violation leads to criminal prosecution or conviction. For purposes of this Agreement, applicable laws include any statute, rule, regulatory order, statement of policy, or final cease-and-desist order of any governmental agency or body having regulatory authority over the Bank, or
  - 5) the occurrence of any event that results in the Executive being excluded from coverage, or having coverage limited for the Executive as compared to other executives of the Bank, under the Bank's blanket bond or other fidelity or insurance policy covering its directors, officers, or employees, or
  - 6) the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or section 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), or

- 7) conviction of the Executive for or plea of no contest to a felony or conviction of or plea of no contest to a misdemeanor involving moral turpitude, or the actual incarceration of the Executive for 45 consecutive days or more..
- d) Change in Control. "Change in Control" means a change in control as defined in Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, including:
- 1) *Change in ownership*: a change in ownership of Intermountain Community Bancorp, an Idaho corporation of which the Employer is a wholly owned subsidiary, occurs on the date any one person or group accumulates ownership of Intermountain Community Bancorp stock constituting more than 50% of the total fair market value or total voting power of Intermountain Community Bancorp stock,;
  - 2) *Change in effective control*: (i) any one person, or more than one person acting as a group, acquires within a 12-month period ownership of Intermountain Community Bancorp stock possessing 30% or more of the total voting power of Intermountain Community Bancorp stock, or (ii) a majority of Intermountain Community Bancorp's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed in advance by a majority of Intermountain Community Bancorp's board of directors, or;
  - 3) *Change in ownership of a substantial portion of assets*: a change in ownership of a substantial portion of Intermountain Community Bancorp's assets occurs if in a 12-month period any one person or more than one person acting as a group acquires from Intermountain Community Bancorp assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of Intermountain Community Bancorp's assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of Intermountain Community Bancorp's assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.
- e) Change in Control Proposal. "Change in Control Proposal" has the meaning assigned in Section 2 of this Agreement.
- f) Effective Date. The "Effective Date" shall be December 17, 2003.
- g) Disability. "Disability" means, because of a medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for a continuous period of at least 12 months, (i) the Executive is unable to engage in any substantial gainful activity, or (ii) the Executive is receiving income replacement benefits for a period of at least three months under an accident and health plan

of the employer. Medical determination of disability may be made either by the Social Security Administration or by the provider of an accident or health plan covering employees of the Employer. Upon request of the Plan Administrator, the Executive must submit proof to the Plan Administrator of the Social Security Administration's or provider's determination.

- h) **Retirement.** "Retirement" shall mean voluntary termination by Executive in accordance with PSB's retirement policies, including early retirement, if applicable to their salaried employees.
- i) **Good Reason.** "Voluntary Termination for Good Reason" means a voluntary termination of employment by the Executive if any one or more of the following conditions occur without the Executive's advance written consent, provided that (i) Executive shall have given notice to the Employer of the existence of one or more of the following conditions within ninety (90) days following the initial existence of the condition(s), (ii) that within thirty (30) days after such notice Employer shall have failed to remedy such condition(s) and (iii) the Executive's voluntary termination due to one or more of such conditions shall have occurred within twenty-four (24) months following the initial existence of at least one of the conditions:
- 1) a material diminution of the Executive's base salary;
  - 2) a material diminution of the Executive's authority, duties, or responsibilities;
  - 3) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report, including a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the board of directors;
  - 4) a material diminution in the budget over which the Executive retains authority;
  - 5) a material change in the geographic location at which the Executive must perform services for the Employer, or;
  - 6) any other action or inaction that constitutes a material breach by the Employer of this agreement or of any other agreement under which the Executive provides services to the Employer.
5. **Not an Employment Agreement.** Nothing in this Agreement, express or implied, is intended to confer upon Executive the right to employment with PSB. Accordingly, except with respect to the Severance Payment, this Agreement shall have no effect on the determination of any compensation payable by PSB to Executive, or upon any of the other terms of Executive's employment with PSB. The specific arrangements referred to herein are not intended to exclude any other benefits which may be available to Executive upon a termination of employment with PSB pursuant to employee benefit plans of PSB or otherwise.
6. **Withholding.** All payments required to be made by PSB hereunder to Executive shall be subject to the withholding of such amounts, if any, relating

to tax and other payroll deductions as PSB may reasonably determine should be withheld pursuant to any applicable law or regulation.

7. **Assignability.** PSB may assign the Agreement and its rights hereunder in whole, but not in part, to any corporation, bank or other entity with or into which PSB may hereafter merge or consolidate or to which PSB may transfer all or substantially all of its assets, if in any such case said corporation, bank or other entity shall by operation of law or expressly in writing assume all obligations of PSB hereunder as fully as if it had been originally made a party hereto, but may not otherwise assign this Agreement or its rights hereunder. Executive may not assign or transfer this Agreement or any rights or obligations hereunder.
8. **Entire Agreement.** This agreement constitutes the entire understanding between the parties concerning its subject matter and supersedes all prior agreements, including but not limited to that certain agreement between Executive and PSB dated May 31, 2002. Accordingly, Executive specifically waives the terms of and all of Executive's rights under any previously executed severance agreement, severance provisions of any employment and/or change-in-control agreements, whether written or oral, previously entered into with PSB and/or IMCB.
9. **Savings Clause Relating to Compliance with Code Section 409A.** Despite any contrary provision of this Agreement, if when the Executive's employment terminates the Executive is a specified employee, as defined in Code section 409A, and if any payments under Article 3 of this Agreement will result in additional tax or interest to the Executive because of section 409A, the Executive shall not be entitled to the payments under Article 3 until the earliest of (i) the date that is at least six months after termination of the Executive's employment for reasons other than the Executive's death, (ii) the date of the Executive's death, or (iii) any earlier date that does not result in additional tax or interest to the Executive under section 409A. If any provision of this Agreement would subject the Executive to additional tax or interest under section 409A, PSB shall reform the provision. However, PSB shall maintain to the maximum extent practicable the original intent of the applicable provision without subjecting the Executive to additional tax or interest, and PSB shall not be required to incur any additional compensation expense as a result of the reformed provision.
10. **General Provisions.**
  - a) Choice of Law. This Agreement is made with reference to and is intended to be construed in accordance with the laws of the State of Idaho.
  - b) Payment of Legal Fees. PSB and IMCB are aware that after a Change in Control management could cause or attempt to cause PSB and IMCB to refuse to comply with the obligations under this Agreement, or could institute or cause or attempt to cause PSB or IMCB to institute litigation seeking to have this Agreement declared unenforceable, or could take or attempt to take other action to deny Executive the

benefits intended under this Agreement. In these circumstances the purpose of this Agreement would be frustrated. It is PSB's and IMCB's intention that the Executive not be required to incur the expenses associated with the enforcement of his rights under this Agreement, whether by litigation or other legal action, because the cost and expense thereof would substantially detract from the benefits intended to be granted to the Executive hereunder. It is PSB's and IMCB's intention that the Executive not be forced to negotiate settlement of his rights under this Agreement under threat of incurring expenses. Accordingly, if after a Change in Control occurs it appears to the Executive that (a) either of PSB or IMCB has failed to comply with any of its obligations under this Agreement, or (b) either of PSB or IMCB or any other person has taken any action to declare this Agreement void or unenforceable, or instituted any litigation or other legal action designed to deny, diminish, or to recover from the Executive the benefits intended to be provided to the Executive hereunder, PSB and IMCB irrevocably authorize the Executive from time to time to retain counsel of his choice, at PSB's and IMCB's expense as provided in this paragraph (b), to represent the Executive in connection with the initiation or defense of any litigation or other legal action, whether by or against PSB or IMCB or any director, officer, stockholder, or other person affiliated with PSB or IMCB, in any jurisdiction. Notwithstanding any existing or previous attorney-client relationship between PSB or IMCB and any counsel chosen by the Executive under this paragraph (b), PSB and IMCB irrevocably consent to the Executive entering into an attorney-client relationship with that counsel, and PSB and IMCB and the Executive agree that a confidential relationship shall exist between the Executive and that counsel. The fees and expenses of counsel selected from time to time by the Executive as provided in this section shall be paid or reimbursed to the Executive by PSB or IMCB on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by such counsel in accordance with such counsel's customary practices, up to a maximum aggregate amount of \$300,000, whether suit be brought or not, and whether or not incurred in trial, bankruptcy, or appellate proceedings. PSB's and IMCB's obligation to pay the Executive's legal fees provided by this paragraph (b) operates separately from and in addition to any legal fee reimbursement obligation PSB or IMCB may have with the Executive under any separate severance, employment, salary continuation, or other agreement. Anything in this paragraph (b) to the contrary notwithstanding however, PSB and IMCB shall not be required to pay or reimburse the Executive's legal expenses if doing so would violate section 18(k) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)] and Rule 359.3 of the Federal Deposit Insurance Corporation [12 CFR 359.3].

- c) Successors. This Agreement shall bind and inure to the benefit of the Parties and each of their respective affiliates, legal representatives, heirs, successors and assigns.





## Exhibit 10.13

**EXECUTIVE SEVERANCE AGREEMENT  
(Amended and Restated)**

This Amended and Restated EXECUTIVE SEVERANCE AGREEMENT ("Agreement") is dated as of December 27, 2007. The parties to this Agreement ("Parties") are PANHANDLE STATE BANK ("PSB"), and **John Nagel** ("Executive"). This Agreement has been ratified by INTERMOUNTAIN COMMUNITY BANCORP ("IMCB"), the parent company of PSB.

- A. Executive is employed by PSB in a managerial capacity, presently holding the position of **Executive Vice President, Credit Administration, Panhandle State Bank.**
- B. PSB wishes to ensure the continued availability of Executive's services in the event of a change in the control of PSB, thereby allowing PSB to maximize the benefits obtainable from any such change. To that end, PSB desires to provide incentive for Executive's continued employment with PSB.
- C. This amendment and restatement of Executive Severance Agreement is intended to incorporate and make such modifications as shall be necessary to comply with Internal Revenue Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury.

NOW THEREFORE, PSB and Executive agree as follows:

**Agreement**

- 1. **Effective Date and Term.** As of the Effective Date, this Agreement shall be a binding obligation of the parties, not subject to revocation or amendment except by mutual consent or in accordance with its terms. The term of this Agreement ("Term") shall commence as of the Effective Date and shall expire upon Executive's termination of employment with PSB. Notwithstanding the preceding, if a definitive agreement providing for a Change in Control (defined below) is entered into (i) on or before the expiration of the Term or (ii) within twelve (12) months after Executive's involuntary termination other than for Cause, Disability, Retirement or death, then expiration of such Term shall be extended through the Severance Protection Period (defined below).
  - 2. **Commitment of Executive.** In the event that any person extends any proposal or offer which is intended to or may result in a Change in Control, defined below (a "Change in Control Proposal"), Executive shall, at PSB's request, assist PSB and/or IMCB in evaluating such proposal or offer. Further, as a condition to receipt of the Severance Payment (defined below), Executive agrees not to voluntarily resign (including resignation for Good Reason) Executive's position with PSB during any period from the receipt of a specific Change in Control Proposal up to the consummation or abandonment of the transaction contemplated by such Proposal.
-

### 3. Severance Payment.

- a) Payment Events. Subject to the requirements of Section 2 of this Agreement, in the event of involuntary termination of Executive's employment with PSB, other than for Cause, Disability, Retirement, (each defined below) or death, or in the event of voluntary termination for Good Reason (defined below), (i) within the Severance Protection Period after a Change in Control, (ii) within twelve (12) months before a definitive agreement providing for a Change in Control is entered into or (iii) within the period between the date a definitive agreement is executed and the effective date of the Change of Control, PSB will pay Executive a severance payment in the amount determined pursuant to the next section ("Severance Payment"), payable on the later of the date of termination, the effective date of the Change in Control, or the first day of the seventh month after the month in which the Executive's termination of employment occurs. The "Severance Protection Period" shall be the period beginning on the effective date of the Change of Control and continuing thereafter for twenty-four (24) months.
- b) Amount of Payment. The Severance Payment shall be an amount equal to two (2) times the average of the total base compensation and short term bonus received by Executive for each of the two most recent calendar years.
- c) Limitation on Payment. Notwithstanding anything in this Agreement to the contrary, the Severance Payment shall not exceed an amount equal to One Dollar (\$1.00) less than the amount which would cause the payment, together with any other payments received from PSB and/or IMCB to be a "parachute payment" as defined in Section 280G(b)(2)(A) of the Internal Revenue Code of 1986, as amended.

### 4. Definitions

- a) IMCB. "IMCB" means Intermountain Community Bancorp.
- b) PSB. "PSB" means Panhandle State Bank. PSB is a wholly owned subsidiary of IMCB.
- c) Cause. "Cause" shall mean termination of the Executive's employment for any of the following reasons:
  - 1) the Executive's gross negligence or gross neglect of duties or intentional and material failure to perform stated duties after written notice thereof, or;
  - 2) disloyalty or dishonesty by the Executive in the performance of the Executive's duties, or a breach of the Executive's fiduciary duties for personal profit, in any case whether in the Executive's capacity as a director or officer, or
  - 3) intentional wrongful damage by the Executive to the business or property of the Bank or its affiliates, including without

- limitation the reputation of the Bank, which in the judgment of the Bank causes material harm to the Bank or affiliates, or
- 4) a willful violation by the Executive of any applicable law or significant policy of the Bank or an affiliate that, in the Bank's judgment, results in an adverse effect on the Bank or the affiliate, regardless of whether the violation leads to criminal prosecution or conviction. For purposes of this Agreement, applicable laws include any statute, rule, regulatory order, statement of policy, or final cease-and-desist order of any governmental agency or body having regulatory authority over the Bank, or
  - 5) the occurrence of any event that results in the Executive being excluded from coverage, or having coverage limited for the Executive as compared to other executives of the Bank, under the Bank's blanket bond or other fidelity or insurance policy covering its directors, officers, or employees, or
  - 6) the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or section 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), or
  - 7) conviction of the Executive for or plea of no contest to a felony or conviction of or plea of no contest to a misdemeanor involving moral turpitude, or the actual incarceration of the Executive for 45 consecutive days or more..
- d) Change in Control. "Change in Control" means a change in control as defined in Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, including:
- 1) *Change in ownership*: a change in ownership of Intermountain Community Bancorp, an Idaho corporation of which the Employer is a wholly owned subsidiary, occurs on the date any one person or group accumulates ownership of Intermountain Community Bancorp stock constituting more than 50% of the total fair market value or total voting power of Intermountain Community Bancorp stock,;
  - 2) *Change in effective control*: (i) any one person, or more than one person acting as a group, acquires within a 12-month period ownership of Intermountain Community Bancorp stock possessing 30% or more of the total voting power of Intermountain Community Bancorp stock, or (ii) a majority of Intermountain Community Bancorp's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed in advance by a majority of Intermountain Community Bancorp's board of directors, or;
  - 3) *Change in ownership of a substantial portion of assets*: a change in ownership of a substantial portion of Intermountain Community Bancorp's assets occurs if in a 12-month period any one person or more than one person acting as a group acquires

from Intermountain Community Bancorp assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of Intermountain Community Bancorp's assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of Intermountain Community Bancorp's assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.

- e) Change in Control Proposal. "Change in Control Proposal" has the meaning assigned in Section 2 of this Agreement.
- f) Effective Date. The "Effective Date" shall be December 17, 2003
- g) Disability. "Disability" means, because of a medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for a continuous period of at least 12 months, (i) the Executive is unable to engage in any substantial gainful activity, or (ii) the Executive is receiving income replacement benefits for a period of at least three months under an accident and health plan of the employer. Medical determination of disability may be made either by the Social Security Administration or by the provider of an accident or health plan covering employees of the Employer. Upon request of the Plan Administrator, the Executive must submit proof to the Plan Administrator of the Social Security Administration's or provider's determination.
- h) Retirement. "Retirement" shall mean voluntary termination by Executive in accordance with PSB's retirement policies, including early retirement, if applicable to their salaried employees.
- i) Good Reason. "Voluntary Termination for Good Reason" means a voluntary termination of employment by the Executive if any one or more of the following conditions occur without the Executive's advance written consent, provided that (i) Executive shall have given notice to the Employer of the existence of one or more of the following conditions within ninety (90) days following the initial existence of the condition(s), (ii) that within thirty (30) days after such notice Employer shall have failed to remedy such condition(s) and (iii) the Executive's voluntary termination due to one or more of such conditions shall have occurred within twenty-four (24) months following the initial existence of at least one of the conditions:
  - 1) a material diminution of the Executive's base salary;
  - 2) a material diminution of the Executive's authority, duties, or responsibilities;
  - 3) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report, including a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the board of directors;
  - 4) a material diminution in the budget over which the Executive retains authority;

- 5) a material change in the geographic location at which the Executive must perform services for the Employer, or;
  - 6) any other action or inaction that constitutes a material breach by the Employer of this agreement or of any other agreement under which the Executive provides services to the Employer.
5. **Not an Employment Agreement.** Nothing in this Agreement, express or implied, is intended to confer upon Executive the right to employment with PSB. Accordingly, except with respect to the Severance Payment, this Agreement shall have no effect on the determination of any compensation payable by PSB to Executive, or upon any of the other terms of Executive's employment with PSB. The specific arrangements referred to herein are not intended to exclude any other benefits which may be available to Executive upon a termination of employment with PSB pursuant to employee benefit plans of PSB or otherwise.
6. **Withholding.** All payments required to be made by PSB hereunder to Executive shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as PSB may reasonably determine should be withheld pursuant to any applicable law or regulation.
7. **Assignability.** PSB may assign the Agreement and its rights hereunder in whole, but not in part, to any corporation, bank or other entity with or into which PSB may hereafter merge or consolidate or to which PSB may transfer all or substantially all of its assets, if in any such case said corporation, bank or other entity shall by operation of law or expressly in writing assume all obligations of PSB hereunder as fully as if it had been originally made a party hereto, but may not otherwise assign this Agreement or its rights hereunder. Executive may not assign or transfer this Agreement or any rights or obligations hereunder.
8. **Entire Agreement.** This agreement constitutes the entire understanding between the parties concerning its subject matter and supersedes all prior agreements, including but not limited to that certain agreement between Executive and PSB dated May 23, 2001. Accordingly, Executive specifically waives the terms of and all of Executive's rights under any previously executed severance agreement, severance provisions of any employment and/or change-in-control agreements, whether written or oral, previously entered into with PSB and/or IMCB.
9. **Savings Clause Relating to Compliance with Code Section 409A.** Despite any contrary provision of this Agreement, if when the Executive's employment terminates the Executive is a specified employee, as defined in Code section 409A, and if any payments under Article 3 of this Agreement will result in additional tax or interest to the Executive because of section 409A, the Executive shall not be entitled to the payments under Article 3 until the earliest of (i) the date that is at least six months after termination of the Executive's employment for reasons other than the Executive's death, (ii) the date of the Executive's death, or (iii) any earlier date that does not result in additional tax or interest to the Executive under section 409A. If any provision

of this Agreement would subject the Executive to additional tax or interest under section 409A, PSB shall reform the provision. However, PSB shall maintain to the maximum extent practicable the original intent of the applicable provision without subjecting the Executive to additional tax or interest, and PSB shall not be required to incur any additional compensation expense as a result of the reformed provision.

#### 10. General Provisions.

- a) Choice of Law. This Agreement is made with reference to and is intended to be construed in accordance with the laws of the State of Idaho.
- b) Payment of Legal Fees. PSB and IMCB are aware that after a Change in Control management could cause or attempt to cause PSB and IMCB to refuse to comply with the obligations under this Agreement, or could institute or cause or attempt to cause PSB or IMCB to institute litigation seeking to have this Agreement declared unenforceable, or could take or attempt to take other action to deny Executive the benefits intended under this Agreement. In these circumstances the purpose of this Agreement would be frustrated. It is PSB's and IMCB's intention that the Executive not be required to incur the expenses associated with the enforcement of his rights under this Agreement, whether by litigation or other legal action, because the cost and expense thereof would substantially detract from the benefits intended to be granted to the Executive hereunder. It is PSB's and IMCB's intention that the Executive not be forced to negotiate settlement of his rights under this Agreement under threat of incurring expenses. Accordingly, if after a Change in Control occurs it appears to the Executive that (a) either of PSB or IMCB has failed to comply with any of its obligations under this Agreement, or (b) either of PSB or IMCB or any other person has taken any action to declare this Agreement void or unenforceable, or instituted any litigation or other legal action designed to deny, diminish, or to recover from the Executive the benefits intended to be provided to the Executive hereunder, PSB and IMCB irrevocably authorize the Executive from time to time to retain counsel of his choice, at PSB's and IMCB's expense as provided in this paragraph (b), to represent the Executive in connection with the initiation or defense of any litigation or other legal action, whether by or against PSB or IMCB or any director, officer, stockholder, or other person affiliated with PSB or IMCB, in any jurisdiction. Notwithstanding any existing or previous attorney-client relationship between PSB or IMCB and any counsel chosen by the Executive under this paragraph (b), PSB and IMCB irrevocably consent to the Executive entering into an attorney-client relationship with that counsel, and PSB and IMCB and the Executive agree that a confidential relationship shall exist between the Executive and that counsel. The fees and expenses of counsel selected from time to time by the Executive as provided in this section shall be paid or reimbursed to the Executive by PSB or IMCB on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by such counsel in accordance with

such counsel's customary practices, up to a maximum aggregate amount of \$250,000, whether suit be brought or not, and whether or not incurred in trial, bankruptcy, or appellate proceedings. PSB's and IMCB's obligation to pay the Executive's legal fees provided by this paragraph (b) operates separately from and in addition to any legal fee reimbursement obligation PSB or IMCB may have with the Executive under any separate severance, employment, salary continuation, or other agreement. Anything in this paragraph (b) to the contrary notwithstanding however, PSB and IMCB shall not be required to pay or reimburse the Executive's legal expenses if doing so would violate section 18(k) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)] and Rule 359.3 of the Federal Deposit Insurance Corporation [12 CFR 359.3].

- c) Successors. This Agreement shall bind and inure to the benefit of the Parties and each of their respective affiliates, legal representatives, heirs, successors and assigns.
- d) Amendment. This Agreement may be amended only in a writing signed by the Parties.
- e) Headings. The headings of sections of this Agreement have been included for convenience of reference only. They shall not be construed to modify or otherwise affect in any respect any of the provisions of the Agreement.

EXECUTED by each of the Parties effective as of the date first stated above.

PSB  
Panhandle State Bank

Executive  
Executive Vice President  
Credit Administration

By: /s/  
Chief Executive Officer Date

/s/  
John Nagel Date

AGREED TO AND RATIFIED by:

IMCB  
Intermountain Community Bancorp

By: /s/  
President & CEO Date

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## Section 11: EX-10.14 (EXHIBIT 10.14)

## Exhibit 10.14

**EXECUTIVE SEVERANCE AGREEMENT  
(Amended and Restated)**

This Amended and Restated EXECUTIVE SEVERANCE AGREEMENT ("Agreement") is dated as of December 28, 2007. The parties to this Agreement ("Parties") are PANHANDLE STATE BANK ("PSB"), and **Pamela Rasmussen** ("Executive"). This Agreement has been ratified by INTERMOUNTAIN COMMUNITY BANCORP ("IMCB"), the parent company of PSB.

- A. Executive is employed by PSB in a managerial capacity, presently holding the position of **Executive Vice President, Chief Operating Officer, Panhandle State Bank**.
- B. PSB wishes to ensure the continued availability of Executive's services in the event of a change in the control of PSB, thereby allowing PSB to maximize the benefits obtainable from any such change. To that end, PSB desires to provide incentive for Executive's continued employment with PSB.
- C. This amendment and restatement of Executive Severance Agreement is intended to incorporate and make such modifications as shall be necessary to comply with Internal Revenue Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury.

NOW THEREFORE, PSB and Executive agree as follows:

**Agreement**

1. **Effective Date and Term.** As of the Effective Date, this Agreement shall be a binding obligation of the parties, not subject to revocation or amendment except by mutual consent or in accordance with its terms. The term of this Agreement ("Term") shall commence as of the Effective Date and shall expire upon Executive's termination of employment with PSB. Notwithstanding the preceding, if a definitive agreement providing for a Change in Control (defined below) is entered into (i) on or before the expiration of the Term or (ii) within twelve (12) months after Executive's involuntary termination other than for Cause, Disability, Retirement or death, then expiration of such Term shall be extended through the Severance Protection Period (defined below).
  2. **Commitment of Executive.** In the event that any person extends any proposal or offer which is intended to or may result in a Change in Control, defined below (a "Change in Control Proposal"), Executive shall, at PSB's request, assist PSB and/or IMCB in evaluating such proposal or offer. Further, as a condition to receipt of the Severance Payment (defined below), Executive agrees not to voluntarily resign (including resignation for Good Reason) Executive's position with PSB during any period from the receipt of a specific Change in Control Proposal up to the consummation or abandonment of the transaction contemplated by such Proposal.
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### 3. Severance Payment.

- a) Payment Events. Subject to the requirements of Section 2 of this Agreement, in the event of involuntary termination of Executive's employment with PSB, other than for Cause, Disability, Retirement, (each defined below) or death, or in the event of voluntary termination for Good Reason (defined below), (i) within the Severance Protection Period after a Change in Control, (ii) within twelve (12) months before a definitive agreement providing for a Change in Control is entered into or (iii) within the period between the date a definitive agreement is executed and the effective date of the Change of Control, PSB will pay Executive a severance payment in the amount determined pursuant to the next section ("Severance Payment"), payable on the later of the date of termination, the effective date of the Change in Control, or the first day of the seventh month after the month in which the Executive's termination of employment occurs. The "Severance Protection Period" shall be the period beginning on the effective date of the Change of Control and continuing thereafter for twenty-four (24) months.
- b) Amount of Payment. The Severance Payment shall be an amount equal to two (2) times the average of the total base compensation and short term bonus received by Executive for each of the two most recent calendar years.
- c) Limitation on Payment. Notwithstanding anything in this Agreement to the contrary, the Severance Payment shall not exceed an amount equal to One Dollar (\$1.00) less than the amount which would cause the payment, together with any other payments received from PSB and/or IMCB to be a "parachute payment" as defined in Section 280G(b)(2)(A) of the Internal Revenue Code of 1986, as amended.

### 4. Definitions

- a) IMCB. "IMCB" means Intermountain Community Bancorp.
- b) PSB. "PSB" means Panhandle State Bank. PSB is a wholly owned subsidiary of IMCB.
- c) Cause. "Cause" shall mean termination of the Executive's employment for any of the following reasons:
  - 1) the Executive's gross negligence or gross neglect of duties or intentional and material failure to perform stated duties after written notice thereof, or;
  - 2) disloyalty or dishonesty by the Executive in the performance of the Executive's duties, or a breach of the Executive's fiduciary duties for personal profit, in any case whether in the Executive's capacity as a director or officer, or
  - 3) intentional wrongful damage by the Executive to the business or property of the Bank or its affiliates, including without limitation the reputation of the Bank, which in the judgment of the Bank causes material harm to the Bank or affiliates, or

- 4) a willful violation by the Executive of any applicable law or significant policy of the Bank or an affiliate that, in the Bank's judgment, results in an adverse effect on the Bank or the affiliate, regardless of whether the violation leads to criminal prosecution or conviction. For purposes of this Agreement, applicable laws include any statute, rule, regulatory order, statement of policy, or final cease-and-desist order of any governmental agency or body having regulatory authority over the Bank, or
  - 5) the occurrence of any event that results in the Executive being excluded from coverage, or having coverage limited for the Executive as compared to other executives of the Bank, under the Bank's blanket bond or other fidelity or insurance policy covering its directors, officers, or employees, or
  - 6) the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or section 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), or
  - 7) conviction of the Executive for or plea of no contest to a felony or conviction of or plea of no contest to a misdemeanor involving moral turpitude, or the actual incarceration of the Executive for 45 consecutive days or more..
- d) Change in Control. "Change in Control" means a change in control as defined in Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, including:
- 1) *Change in ownership*: a change in ownership of Intermountain Community Bancorp, an Idaho corporation of which the Employer is a wholly owned subsidiary, occurs on the date any one person or group accumulates ownership of Intermountain Community Bancorp stock constituting more than 50% of the total fair market value or total voting power of Intermountain Community Bancorp stock,;
  - 2) *Change in effective control*: (i) any one person, or more than one person acting as a group, acquires within a 12-month period ownership of Intermountain Community Bancorp stock possessing 30% or more of the total voting power of Intermountain Community Bancorp stock, or (ii) a majority of Intermountain Community Bancorp's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed in advance by a majority of Intermountain Community Bancorp's board of directors, or;
  - 3) *Change in ownership of a substantial portion of assets*: a change in ownership of a substantial portion of Intermountain Community Bancorp's assets occurs if in a 12-month period any one person or more than one person acting as a group acquires from Intermountain Community Bancorp assets having a total gross fair market value equal to or exceeding 40% of the total gross fair

market value of all of Intermountain Community Bancorp's assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of Intermountain Community Bancorp's assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.

- e) Change in Control Proposal. "Change in Control Proposal" has the meaning assigned in Section 2 of this Agreement.
- f) Effective Date. The "Effective Date" shall be March 14, 2007.
- g) Disability. "Disability" means, because of a medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for a continuous period of at least 12 months, (i) the Executive is unable to engage in any substantial gainful activity, or (ii) the Executive is receiving income replacement benefits for a period of at least three months under an accident and health plan of the employer. Medical determination of disability may be made either by the Social Security Administration or by the provider of an accident or health plan covering employees of the Employer. Upon request of the Plan Administrator, the Executive must submit proof to the Plan Administrator of the Social Security Administration's or provider's determination.
- h) Retirement. "Retirement" shall mean voluntary termination by Executive in accordance with PSB's retirement policies, including early retirement, if applicable to their salaried employees.
- i) Good Reason. "Voluntary Termination for Good Reason" means a voluntary termination of employment by the Executive if any one or more of the following conditions occur without the Executive's advance written consent, provided that (i) Executive shall have given notice to the Employer of the existence of one or more of the following conditions within ninety (90) days following the initial existence of the condition(s), (ii) that within thirty (30) days after such notice Employer shall have failed to remedy such condition(s) and (iii) the Executive's voluntary termination due to one or more of such conditions shall have occurred within twenty-four (24) months following the initial existence of at least one of the conditions:
  - 1) a material diminution of the Executive's base salary;
  - 2) a material diminution of the Executive's authority, duties, or responsibilities;
  - 3) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report, including a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the board of directors;
  - 4) a material diminution in the budget over which the Executive retains authority;

- 5) a material change in the geographic location at which the Executive must perform services for the Employer, or;
  - 6) any other action or inaction that constitutes a material breach by the Employer of this agreement or of any other agreement under which the Executive provides services to the Employer.
5. **Not an Employment Agreement.** Nothing in this Agreement, express or implied, is intended to confer upon Executive the right to employment with PSB. Accordingly, except with respect to the Severance Payment, this Agreement shall have no effect on the determination of any compensation payable by PSB to Executive, or upon any of the other terms of Executive's employment with PSB. The specific arrangements referred to herein are not intended to exclude any other benefits which may be available to Executive upon a termination of employment with PSB pursuant to employee benefit plans of PSB or otherwise.
6. **Withholding.** All payments required to be made by PSB hereunder to Executive shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as PSB may reasonably determine should be withheld pursuant to any applicable law or regulation.
7. **Assignability.** PSB may assign the Agreement and its rights hereunder in whole, but not in part, to any corporation, bank or other entity with or into which PSB may hereafter merge or consolidate or to which PSB may transfer all or substantially all of its assets, if in any such case said corporation, bank or other entity shall by operation of law or expressly in writing assume all obligations of PSB hereunder as fully as if it had been originally made a party hereto, but may not otherwise assign this Agreement or its rights hereunder. Executive may not assign or transfer this Agreement or any rights or obligations hereunder.
8. **Entire Agreement.** This agreement constitutes the entire understanding between the parties concerning its subject matter and supersedes all prior agreements, including but not limited to that certain agreement between Executive and PSB dated November 9, 2004. Accordingly, Executive specifically waives the terms of and all of Executive's rights under any previously executed severance agreement, severance provisions of any employment and/or change-in-control agreements, whether written or oral, previously entered into with PSB and/or IMCB.
9. **Savings Clause Relating to Compliance with Code Section 409A.** Despite any contrary provision of this Agreement, if when the Executive's employment terminates the Executive is a specified employee, as defined in Code section 409A, and if any payments under Article 3 of this Agreement will result in additional tax or interest to the Executive because of section 409A, the Executive shall not be entitled to the payments under Article 3 until the earliest of (i) the date that is at least six months after termination of the Executive's employment for reasons other than the Executive's death, (ii) the date of the Executive's death, or (iii) any earlier date that does not result in additional tax or interest to the Executive under section 409A. If any provision

of this Agreement would subject the Executive to additional tax or interest under section 409A, PSB shall reform the provision. However, PSB shall maintain to the maximum extent practicable the original intent of the applicable provision without subjecting the Executive to additional tax or interest, and PSB shall not be required to incur any additional compensation expense as a result of the reformed provision.

#### 10. General Provisions.

- a) Choice of Law. This Agreement is made with reference to and is intended to be construed in accordance with the laws of the State of Idaho.
- b) Payment of Legal Fees. PSB and IMCB are aware that after a Change in Control management could cause or attempt to cause PSB and IMCB to refuse to comply with the obligations under this Agreement, or could institute or cause or attempt to cause PSB or IMCB to institute litigation seeking to have this Agreement declared unenforceable, or could take or attempt to take other action to deny Executive the benefits intended under this Agreement. In these circumstances the purpose of this Agreement would be frustrated. It is PSB's and IMCB's intention that the Executive not be required to incur the expenses associated with the enforcement of his rights under this Agreement, whether by litigation or other legal action, because the cost and expense thereof would substantially detract from the benefits intended to be granted to the Executive hereunder. It is PSB's and IMCB's intention that the Executive not be forced to negotiate settlement of his rights under this Agreement under threat of incurring expenses. Accordingly, if after a Change in Control occurs it appears to the Executive that (a) either of PSB or IMCB has failed to comply with any of its obligations under this Agreement, or (b) either of PSB or IMCB or any other person has taken any action to declare this Agreement void or unenforceable, or instituted any litigation or other legal action designed to deny, diminish, or to recover from the Executive the benefits intended to be provided to the Executive hereunder, PSB and IMCB irrevocably authorize the Executive from time to time to retain counsel of his choice, at PSB's and IMCB's expense as provided in this paragraph (b), to represent the Executive in connection with the initiation or defense of any litigation or other legal action, whether by or against PSB or IMCB or any director, officer, stockholder, or other person affiliated with PSB or IMCB, in any jurisdiction. Notwithstanding any existing or previous attorney-client relationship between PSB or IMCB and any counsel chosen by the Executive under this paragraph (b), PSB and IMCB irrevocably consent to the Executive entering into an attorney-client relationship with that counsel, and PSB and IMCB and the Executive agree that a confidential relationship shall exist between the Executive and that counsel. The fees and expenses of counsel selected from time to time by the Executive as provided in this section shall be paid or reimbursed to the Executive by PSB or IMCB on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by such counsel in accordance with



Exhibit 21

- (1) Panhandle State Bank, an Idaho state-chartered bank
- (2) Intermountain Statutory Trust I, a Connecticut statutory trust
- (3) Intermountain Statutory Trust II, a Delaware statutory trust

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## **Section 13: EX-23 (EXHIBIT 23)**

## EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

Intermountain Community Bancorp  
Sandpoint, Idaho

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-117265, 333-121266 and 333-132835) of Intermountain Community Bancorp, of our reports dated March 17, 2008, relating to the consolidated financial statements, and the effectiveness of Intermountain Community Bancorp's internal control over financial reporting, which appear in this Form 10-K.

BDO Seidman, LLP  
Spokane, Washington  
March 17, 2008

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**Section 14: EX-31.1 (EXHIBIT 31.1)**



**EXHIBIT 31.1****SECTION 302 CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER**

I, Curt Hecker, certify that:

1. I have reviewed this annual report on Form 10-K of Intermountain Community Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Curt Hecker

**Curt Hecker**

President and Chief Executive Officer

Dated: March 17, 2008

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**Section 15: EX-31.2 (EXHIBIT 31.2)**

**EXHIBIT 31.2****SECTION 302 CERTIFICATION BY THE PRINCIPAL FINANCIAL OFFICER**

I, Doug Wright, certify that:

1. I have reviewed this annual report on Form 10-K of Intermountain Community Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Doug Wright

**Doug Wright**

Executive Vice President,

Chief Financial Officer and Principal Financial Officer

Dated: March 17, 2008

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**Section 16: EX-32 (EXHIBIT 32)**

**EXHIBIT 32****CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER****Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant  
To Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Intermountain Community Bancorp (“The Company”) on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Curt Hecker, Chief Executive Officer, and Doug Wright, Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Sterling.

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: March 17, 2008

/s/ Curt Hecker

**Curt Hecker**

President and Chief Executive Officer

/s/ Doug Wright

**Doug Wright**

Chief Financial Officer

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