

CPP ANNUAL USE OF CAPITAL SURVEY - 2013

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Intermountain Community Bancorp (IMCB) and its subsidiary Panhandle State Bank

Person to be contacted regarding this report:	Douglas Wright	RSSD: (For Bank Holding Companies)	2634490
UST Sequence Number:	62	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	27,000,000	FDIC Certificate Number: (For Depository Institutions)	23415
CPP/CDCI Funds Repaid to Date:	27,000,000	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	Dec 19, 2008	City:	Sandpoint
Date Repaid ¹ :	Nov 20, 2013	State:	Idaho

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	With the support of CPP funds thru November, IMCB originated \$220MM in new loans for 2013, a decline from 2012 due to muted borrowing demand, aggressive competition and higher mortgage rates, but continued its commitment to meeting community credit needs.
<input type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Investments in marketable securities, including MBS, CMOs, SBA pools, municipals & agency securities decreased in 2013 due primarily to the sale of available-for-sale securities to redeem the CPP preferred stock in Nov. MBS, CMO & SBA pools represented 79% of the 2013 investment portfolio.

<input type="checkbox"/>	Make other investments	
<input type="checkbox"/>	Increase reserves for non-performing assets	
<input checked="" type="checkbox"/>	Reduce borrowings	Even with the redemption of the CPP in 2013, IMCB was able to reduce wholesale borrowings further, so that 97% of its funding base is provided by local customers.
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

With the capital infusion of CPP funds, IMCB was primarily able to avoid the following two conditions:

A MORE SIGNIFICANT REDUCTION IN NEW LOAN ORIGINATIONS:
As noted above, IMCB originated approximately \$220MM in new loans or 42% of the ending loan balance in 2013. Lower loan originations over the prior year reflected a combination of muted borrowing demand from commercial and agricultural customers, and reduced mortgage refinancing activity; however, activity remains strong in the commercial real estate and construction sectors as low interest rates spur purchase activity and encourage stronger borrowers to expand. New loan originations included \$127MM in commercial and agricultural loans to small and mid-size businesses throughout all of IMCB's markets, and \$82MM in first and second lien residential real estate loans to local consumers. These loan originations are vital to our communities and support numerous small businesses and farmers in rural locations, and provide funding for consumers to purchase, remodel or refinance homes while real estate prices and mortgage rates slowly rise and overall market conditions continue to adjust.

A SIZABLE REDUCTION TO IMCB'S BALANCE SHEET:
IMCB would have been forced to reduce services to many of its loan and deposit customers had a sizable reduction to its balance sheet taken place. IMCB holds between 25-50% of market share in many of the rural communities of Idaho, Oregon and Eastern Washington and a reduction of services would have negatively impacted our customers. Even after repaying the CPP funds with \$20MM cash and \$7MM in borrowed funds, IMCB was able to sustain only a relatively small drop in the equity to asset ratio from 11.77% to 10.01% over the prior year, and maintain its lending commitment to the communities it serves.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

In addition to maintaining services for our customers and meeting loan demands in an economy still under pressure from slow employment growth and aggressive industry competition, in 2013 IMCB was supported by CPP funds through November in continuing to support its communities in various ways.

Company employees donated a total of 5,860 volunteer hours to community projects and causes. In addition, the Company supported local charities and community business development activities with gifts totaling \$167,000 including a) \$15,000 membership to Jobs Plus, Inc., an economic development company assisting established companies relocate to or expand in northern Idaho; b) \$6,000 to Spokane Neighborhood Action Partners (SNAP) to expand their services and increase their ability to offer home ownership and foreclosure counseling and education in Spokane, WA; c) \$2,500 to Idaho Rural Partnerships in Boise, joining public and private resources to strengthen and improve life in rural Idaho; and d) \$1,500 to the Inland Northwest Community Foundation committed to supporting the work of non-profit organizations within eastern Washington and northern Idaho. Educational causes included \$3,000 to the Malheur County initiative "Poverty to Prosperity" to be used toward the development of a career technical education program, \$7,500 to North Idaho College for a science lab, \$5,000 to the Post Falls Education Foundation, \$4,000 in scholarships to Weiser High School, \$10,000 to the Friends of Memorial Field in Sandpoint for new grandstands at the local sports field, and \$4,500 for other school related functions, fund raisers, and scholarships. Other sponsorships included \$9,000 to the Bonner General Hospital Foundation, and \$7,500 for the Festival at Sandpoint and Pend Oreille Arts Council to support cultural activities that directly impact local businesses year round.

As stated in previous reports, IMCB worked aggressively on loan issues by early identification of problems and proactive engagement with customers to reach the best possible conclusion and avoid potential losses to the Company. Solutions included modifying loan terms, maturities and/or rates, discounting balances as part of refinancing new lower loan balances, arranging short sales by borrowers and as a last resort, liquidation of the asset. CPP funds enhanced the flexibility of IMCB to work pro-actively with borrowers in 2013 resulting in continued reductions in non-performing assets.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

Due to the support provided directly and indirectly from CPP funds, 2013 represented the culmination of several years of effort to restructure and reposition IMCB for the future. In the fourth quarter, IMCB repaid the CPP funds with \$20MM in cash and a \$7MM loan, reversed its remaining tax valuation allowance, and sold its one remaining other real estate owned (OREO) property. These moves signal increasing confidence in the future prospects and profitability of IMCB based on improving regional economic conditions, stronger levels of pre-tax profitability, and strong asset quality. IMCB is now positioned for success in a different banking environment where changing customer patterns, rapid technological advances, and stiff competition are creating industry consolidation and customer disruption. With its strong local deposit franchise and flexible capital base, IMCB is adaptable to rapidly changing conditions, and remaining proactive in its management of key risks, particularly credit and interest rate risk.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.