CPP ANNUAL USE OF CAPITAL SURVEY - 2011

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

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

Point of Contact:	Douglas M. Wright	RSSD: (For Bank Holding Companies)	2634490
UST Sequence Number:	62	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:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	0
Date Repaid[1]:	N/A	State:	0

[1] If 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).

X Increase lending or reduce lending less than otherwise would have occurred.

Due to heightened capital requirements and IMCB's capital position, CPP funds supported much of the $235MM in loan originations in 2011, a decline from 2010 reflecting muted borrowing demand and keen competition, but a continued commitment to community needs.

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☐ **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.).**

☒ **Increase securities purchased (ABS, MBS, etc.).**

Investments in marketable securities, including MBS, CMO, municipals and agency securities, increased by $36MM from 2010 to 2011, supporting increased liquidity and lower mortgage and municipal market rates. MBS and CMOs represented 83% of the investment portfolio in 2011.

☐ **Make other investments.**

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☐ **Increase reserves for non-performing assets.**

☐ **Reduce borrowings.**

☒ **Increase charge-offs.**

IMCB continued to manage and resolve problem credits based on an established, pro-active approach resulting in reduced charge-offs in 2011 vs. 2010. While the credit market remained challenging, CPP capital continued to provide additional flexibility to resolve issues.

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☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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

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

1) A MORE SIGNIFICANT REDUCTION IN NEW LOAN ORIGINATIONS

In 2011, as noted above, IMCB originated about $235 million in loans or 46% of the 2011 ending loan balance. Lower total originations than year-end 2010 reflect muted borrowing demand and a continued soft real estate market, prudent underwriting standards in a high-risk environment, and increased competition in the banking industry. Due to overall higher bank capital levels required by market and regulatory conditions, in 2011 the estimated $235 million in total origination activity was supported by CPP funds and included $147 million in commercial and agricultural loans to small and mid-size businesses throughout our markets, and $62 million in first and second lien residential real estate loans to local consumers. These loan originations support numerous businesses and farmers in our rural communities, and provide funding for consumers to purchase, remodel or refinance homes while real estate prices and mortgage rates remain particularly attractive.

2) 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. Due to IMCB’s significant market presence in the rural communities of Idaho, Oregon and Eastern Washington (holding between 25-50% market share in many of its counties), a reduction in services would have negatively impacted both our customers and local communities. To maintain the equity to asset ratio of 6.6% that it achieved at year end 2011 without CPP funds would have required IMCB to reduce its balance sheet by about $410 million.

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

The Company was able to complete its third full year of investment in its company-wide outreach initiative, Powered by Community (PBC), focusing on business development including a) participation in the southern Idaho Ag Symposium to educate small agricultural producers and farmers in tax planning; b) involvement in the Bonners Ferry Urban Renewal Agency to encourage and support economic revitalization and community development to remediate existing deterioration, and prevent future deterioration in a distressed and underserved county of North Idaho; c) participation in the Sage Community Resources Region II Economic Development Department which covers 10 southwestern Idaho counties and manages the Area Agency on Aging, Business & Community Development and administering Adult Protection Services; d) sponsorship of the Fifth Annual Community Partnerships in Action event in the Magic Valley area providing financial training to low-to-moderate income individuals and families; and e) sponsorship of the Snake River Economic Development Alliance focused on attracting new companies to counties in western Idaho and eastern Oregon. In addition, employees of the company donate time and resources through service as directors on many community boards including the Coeur d'Alene Inland Northwest Blood Center, Kootenai Humane Society, Sandpoint Chamber of Commerce, Kinderhaven (emergency shelter/group foster home for abused and neglected children on North Idaho), Community Assistance League, Hispanic Heritage Fiesta Organization, Pend Oreille Arts Council, Ontario Library District and Dalton Elementary School.

As stated in previous reports, the CPP funds provided additional flexibility in allowing IMCB to work with borrowers to resolve credit challenges as effectively as possible. In many cases, this involved early identification of problems and losses by the Company, followed by proactive engagement with borrowers to reach the best possible conclusion. Successful resolutions included modification of loan terms, maturities and/or rates, discounting balances so that borrowers could refinance with new lower loan balances, arranging short sales by borrowers, and in situations where the above paths would not work, liquidation of the asset. Due to the infusion of CPP funds, the Company was able to continue to work proactively with borrowers in 2011, resulting in a reduction of the number of charged-off loans.

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

Without the CPP funds, IMCB would not have had the same flexibility to pursue different options with its struggling borrowers.

In 2011, due to strong continued deposit balances and lower loan demand, the Company deployed funds from reductions in the loan portfolio into the investment portfolio, including investments in mortgage-backed securities, collateralized mortgage obligations, and municipals. These efforts continued to add liquidity to the residential mortgage and municipal markets and keep rates low, while at the same time maintaining a healthy yield on the investment portfolio. In addition, CPP funds added directly and indirectly to the overall liquidity of IMCB, enhancing the stability of its balance sheet and providing additional safety to its depositors during a period of heightened market concerns. The $27 million received boosted IMCB's funds directly by adding cash to the balance sheet, and indirectly, it supported the maintenance of higher levels of liquid assets.