

CPP ANNUAL USE OF CAPITAL SURVEY - 2012

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:	0	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Sandpoint
Date Repaid ¹ :	N/A	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.	During 2012, IMCB completed a successful capital raise and, together with the support of CPP funds, originated \$255MM in new loans, an increase of \$20MM over 2011, reflecting a slow but strengthening economy and a continued commitment to community 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 increased \$61MM in 2012. The investments supported increased liquidity & lower mortgage & municipal market rates. MBS, CMOs & SBA pools represented 77% of the 2012 investment portfolio.

<input type="checkbox"/>	Make other investments	
<input type="checkbox"/>	Increase reserves for non-performing assets	
<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	The negative impact of problem loans continued to subside based on the flexibility provided by CPP funds and IMCB's pro-active approach to managing and resolving problem credits.
<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:

1) A MORE SIGNIFICANT REDUCTION IN NEW LOAN ORIGINATIONS:
As noted above, IMCB originated approximately \$255MM in loans or 49% of the ending loan balance in 2012. This increase in loan originations of \$20MM over 2011 was supported by CPP funds and included \$150MM in commercial and agricultural loans to small and mid-size businesses throughout all of IMCB's markets, and \$95MM 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 remain at historically low levels.

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. 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. To maintain the equity to asset ratio of 11.77% achieved at year end 2012 without CPP funds would have required IMCB to reduce its balance sheet by about \$230MM.

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

In addition to originating more loans and maintaining services for more customers than it otherwise would have been able to do in Idaho's slowly recovering economy, IMCB was supported by CPP funds for the following investments in the communities it serves:

The Company was able to complete its fourth full year of investment in its company-wide outreach initiative, Powered by Community (PBC), with a continued focus on business development that in 2012 included contributions to non-profit organizations including a) \$15K donation to Jobs Plus, Inc., an economic development company helping existing companies relocate or expand to northern Idaho; b) \$5,000 to the Snake River Economic Development Alliance (SREDA) in Ontario, Oregon, an investor-supported organization dedicated to diversifying the regional economy by attracting new investment and jobs; and c) a \$3,000 capital contribution to Spokane Neighborhood Action Partners (SNAP) for purchasing a new building which will expand their services and increase their ability to offer home ownership and foreclosure counseling and education in Spokane, Washington.

Along with donations to community based causes, bank employees contributed many hours of community service including memberships on community boards including the Ontario Chamber of Commerce and SREDA, (both involved heavily in small business development), the Treasure Valley Community College Foundation (fundraising and administration of scholarships), the Pend Oreille Arts Council and Bonner General Hospital Foundation in North Idaho, and the North Idaho Builders Association in Coeur d'Alene. In addition to the high level of expertise provided through board memberships, employees volunteered their services and expertise through fund raisers and educational programs at the community level through 4-H clubs, humane societies, school programs and other IMCB outreach programs such as the Shining Star Reading program, and the Community Star and Community Match programs throughout our market areas.

As stated in previous reports, the CPP funds allowed IMCB additional flexibility to work with borrowers to more effectively resolve problem loans. Successful resolution involved early identification of problems and potential losses by IMCB, followed by proactive engagement with customers to reach the best possible conclusion. IMCB provided a number of different paths, including 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. Due to the flexibility provided by the CPP funds, IMCB was able to work proactively with borrowers in 2012 and the number and balances of problem loans were substantially reduced.

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

In 2012, IMCB had strong deposit balances and increased loan demand. Due to the support provided directly and indirectly by the CPP funds, IMCB was able to continue to work creatively with problem credits, increase overall liquidity, maintain yield in the investment portfolio, and reduce borrowings. The impact of the \$27MM received through participation in the TARP boosted IMCB's funds directly by adding cash to the balance sheet and, indirectly, it supported the maintenance of higher levels of liquid assets and provided additional time to successfully complete our capital raise.

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.