INTERMOUNTAIN COMMUNITY BANCORP
Form 10-K
March 28, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 31, 2004

OR

o **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	**82-0499463**
(State or other jurisdiction of incorporation or organization)	*(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	**None**
(Title of each class)	*(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 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 þ No o

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. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No þ

As of June 30, 2004, 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 $49,351,425.

The number of shares outstanding of the registrant s Common Stock, no par value per share, as of March 10, 2005 was 3,826,185.

DOCUMENTS INCORPORATED BY REFERENCE

Specific portions of the registrant s Proxy Statement dated March 31, 2005 are incorporated by reference into Part III hereof.

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PART I

Item 1. BUSINESS

Forward-Looking Statements

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 within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to 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 could affect the Company s financial performance and could cause the Company s actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Intermountain Community Bancorp (Intermountain or the Company) is a bank 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 (the 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) and by the Federal Deposit Insurance Corporation (FDIC), its primary federal regulator and the insurer of its deposits. Because the Bank also operates a branch in Oregon, the Oregon Division of Finance and Corporate Securities also has jurisdiction over the operations of the branch.

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. In 2000, the second branch under that name was opened in Weiser, Idaho. Three additional branches were opened during 2001, one in Coeur d Alene, another in Nampa and the third in Rathdrum. In 2002, a branch was started in Caldwell and during 2003 a branch was opened in Post Falls. 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 this 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 it s 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.

The Bank s primary service area covers three distinct geographical regions. The north Idaho region encompasses the three northernmost counties in Idaho, including Boundary County, Bonner County and Kootenai County. 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 and commercial development over the past ten years.

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 three counties in south central Idaho (Twin Falls, Gooding and Jerome). 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 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.

In February 2005, the Company filed a charter application with the Washington Department of Finance and the FDIC to form Intermountain Savings Bank of Washington (Savings Bank) and open a branch office in Spokane Valley, Washington. If approved, the Savings Bank will be immediately merged into Panhandle State Bank and the office will become a branch of Panhandle. Approval is expected in late March, 2005, with the branch office opening in May. This move will allow the Bank to expand into other parts of Washington if future plans call for it.

The Company s other subsidiaries are 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 14 other branches. In addition to the main office six branch offices operate under the name of Panhandle State Bank. Five of the 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. Thirteen of the Company s branches are located throughout Idaho in the cities of Bonners Ferry, Caldwell, Coeur d Alene, Gooding, Jerome, Nampa, Payette, Ponderay, Post Falls, Priest River, Rathdrum, Twin Falls and Weiser, and one branch is 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, 2004, the Company had total consolidated assets of $597.7 million.

Competition

Based on total asset size as of December 31, 2004, the Company is 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, several local community banks, savings banks, savings and loans, and credit unions throughout its market area. 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, the delineated communities are Boundary, Bonner and Kootenai Counties. These communities include the cities of Coeur d Alene, Rathdrum, Post Falls, Ponderay, Priest River, Sandpoint and Bonners Ferry. Primary competitors in the northern region include US Bank, Wells Fargo, Key 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, Gooding and Jerome Counties, which include the cities of Caldwell, Nampa, Payette, Ontario, Weiser, Twin Falls, Gooding and Jerome. Primary competitors in the

southern region include national or regional banks US Bank, Wells Fargo, Key Bank, Bank of America and Zions Bank, and community banks Farmers & Merchants State Bank, 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.

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 craft and used vehicles range up to 60 months. Loans for the purchase of larger RV s and pleasure craft, 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 annually. The Bank does not currently use credit scoring in connection with any consumer loans. Relationship lending is emphasized, which, along with credit control practices, minimizes risk in this type of lending.

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 above 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 or five years). Risk is mitigated by selling the conventional residential mortgage loans (currently 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 relationship justifying otherwise). All commercial real estate loans are restricted to borrowers with proven track records and financial wherewithal. Project due diligence is conducted by the Bank, to ensure that there are adequate contingencies, collateral and/or government guaranties.

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 five years. 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 five years for term loans. Sound underwriting is applied, as with other business loans, by a staff of lending and credit personnel seasoned in this line of lending. Again, 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.

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 a 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 that are 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.

Investment Services

The Bank provides alternative investment services through third-party vendors, including annuities, securities, mutual funds 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 a fee for providing these services.

Other Services

These services include automated teller machines (ATMs), ATM access cards, point-of-sale (POS) debit cards (VISA Check Card^{tm}), safe deposit boxes, merchant credit card services, travelers cheques, savings bonds, direct deposit, night deposit, cash management services, internet and phone banking services, VISA/ Mastercard and ACH origination services. The Bank is a member of the Star, Plus, Exchange, Interlink and Accell ATM networks.

Loan Portfolio

The loan portfolio continues to be the largest component of earning assets. In 2004, the Company increased loans by 46%, resulting in a favorable increase in earnings for the Company. Residential loans contributed the highest percentage growth in 2004, increasing 60% over 2003. In November 2004, the Bank acquired Snake River Bancorp, Inc. and its subsidiary bank, Magic Valley Bank, which transaction contributed $65.5 million of net loans receivable at the acquisition date. This contribution represented approximately one half of the overall loan portfolio growth during the year.

However, competition for loan business has been intense across most types of loans, with non-bank and traditional bank competitors willing to lend at lower rates than were offered by the Company last year. If loan yields continue to be driven down by this intense competition, the Company s future earnings could be adversely affected. The Bank intends to continue to pursue quality loans using conservative underwriting and control practices, and to compete using relationship pricing techniques.

In 2003, the total loan portfolio increased 47%, with real estate loans contributing the highest percentage growth, 59%, in the portfolio from 2002. In January 2003, the Bank acquired the $39.4 million net loan portfolio of the Ontario branch of Household Bank. At December 31, 2003, the Ontario branch

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had $35.4 million in net loans receivable, representing approximately 38% of the 2003 loan portfolio growth.

The following tables contain information related to the Company s loan portfolio for the five-year period ended December 31, 2004 (dollars in thousands).

	December 31,				
	2004	2003	2002	2001	2000
Commercial loans	$ 304,783	$ 215,396	$ 144,872	$ 110,850	$ 71,642
Residential real estate loans	94,170	58,728	36,832	34,628	28,868
Consumer loans	24,245	16,552	13,854	12,417	12,616
Municipal loans	2,598	1,751	2,679	2,263	3,155
Total loans	425,796	292,427	198,237	160,158	116,281
Allowance for loan losses	(6,902)	(5,118)	(3,259)	(2,574)	(1,875)
Deferred loan fees, net of direct origination costs	(234)	(53)	(204)	(488)	(346)
Loans receivable, net	$ 418,660	$ 287,256	$ 194,774	$ 157,096	$ 114,060
Weighted average rate	6.81%	6.60%	6.94%	7.72%	9.79%

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 weakne 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 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.

Non-accrual loans are those 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 2004, 2003, 2002, 2001 and 2000 on non-accrual loans was approximately $55,000, $7,000, $104,000, $66,000 and $33,000, 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.

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As of December 31, 2004, there were no identified credits, other than those represented in the following table, which were not in compliance with the stated terms of the credit or otherwise presented additional credit risk to the Company.

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

	December 31,				
	2004	2003	2002	2001	2000
Nonaccrual loans (approximately)	$ 1,218	$ 174	$ 609	$ 1,041	$ 370
Nonaccrual loans as a percentage of total loans	0.29%	0.06%	0.31%	0.66%	0.32%
Total allowance related to these loans	$ 413	$ 47	$ 249	$ 134	$ 55
Interest income recorded on these loans	$ 10	$ 3	$ 11	$ 85	$ 13

The 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. It is calculated by applying specified allocation factors to the various portfolio totals segmented by risk grades. The specific allocation factor is reviewed and determined annually, based on a historical migration analysis of charge-offs relative to the various risk grade categories. An allocation is also included for unfunded commitments. Additionally, specific dollar amounts may be allocated to individual loans and/or portfolio segments identified by management as presenting extraordinarily higher risk.

Allocation of the Allowance for Loan Losses
and Non-Accrual Loans Detail

	December 31, 2004			
	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
	(Dollars in thousands)			
Commercial loans	71.58%	$ 304,783	$ 4,844	$ 1,036
Residential real estate loans	22.11%	94,170	1,710	175
Consumer loans	5.70%	24,245	307	7
Municipal loans	0.61%	2,598	41	
Totals	100.00%	$ 425,796	$ 6,902	$ 1,218

	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 real estate loans	20.08%	58,728	1,102	37
Consumer loans	5.66%	16,552	189	16
Municipal loans	0.60%	1,751	23	
Totals	100.00%	$ 292,427	$ 5,118	$ 174

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	December 31, 2002			
	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
Commercial loans	73.08%	$ 144,872	$ 2,572	$ 161
Residential real estate loans	18.58%	36,832	485	445
Consumer loans	6.99%	13,854	184	3
Municipal loans	1.35%	2,679	18	
Totals	100.00%	$ 198,237	$ 3,259	$ 609

	December 31, 2001			
	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
Commercial loans	69.22%	$ 110,850	$ 1,804	$ 125
Residential real estate loans	21.62%	34,628	541	906
Consumer loans	7.75%	12,417	205	10
Municipal loans	1.41%	2,263	24	
Totals	100.00%	$ 160,158	$ 2,574	$ 1,041

The Bank did not maintain records reflecting allocation by loan type prior to 2001. The Bank s allocation was determined in prior years by applying a factor to loan totals based on risk grade, plus any specifically determined amount for individual loans deemed to have greater risk tendency. The allocation factors ranged from 0.5% for cash equivalent secured loans (Risk Grade 1) to 100% for loans with doubtful (Risk Grade 6) repayment status.
Other factors were 1% for Risk Grade 2 (Better than average net worth and repayment capacity), 1.65% for Risk Grade 3 (Satisfactory), 4% for Risk Grade 4 (Special mention), and 15% for Risk Grade 5 (Substandard). All for individual loans with specific (dollar) identification was determined by management s best estimate of probable loss, based on collateral liquidation value.

During 2002, the Company modified its risk grades and the allocation factors. As of December 31, 2004, the allocation factors range from 0.5% for cash equivalent secured loans to 100% of doubtful/loss (Risk Grade 7). Risk Grades 3-7 closely reflect the FDIC s definitions for Satisfactory, Special Mention, Substandard, Doubtful and L respectively. At December 31, 2004, the Company had $10.4 million in the Special Mention and $3.8 million in the Substandard loan categories.

Beginning in February 2002, the Bank began using an alternative methodology for calculating the Allowance for Loan Losses, along with its traditional method of allocating percentages based on risk grading. The alternative method was based more on the Bank s portfolio and performance relative to a designated peer group. The Bank began establishing its allowance based on the greater of the two alternative calculations. At that time the traditional method

had not undergone a validation analysis. In August 2002, a loan loss migration analysis was performed covering the prior 18 months of data. In July 2003, another 12 months of data was analyzed, providing the Bank with 30 months of supporting data for the validity of the traditional methodology. Therefore, in July 2003, the Bank eliminated the alternative methodology in favor of the previously utilized traditional methodology. Also considered in this decision was the fact that peer group data used in the alternative method appeared to provide some skewed data in attempting to arrive at comparable measurement. Management decided its own migration history was more representative of its performance relative to the makeup of its loan portfolio.

The bank s total allowance for loan losses was 1.62% and 1.75% of total loans at December 31, 2004 and December 31, 2003, respectively. The following table provides additional detail on the allowance.

Analysis of the Allowance for Loan Losses

	December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(Dollars in thousands)				
Balance Beginning December 31	$ (5,118)	$ (3,259)	$ (2,574)	$ (1,875)	$ (1,456)
Charge Offs					
Commercial Loans	535	785	740	421	335
Residential Real Estate Loans	44	195	217	55	42
Consumer Loans	164	137	46	56	30
Municipal Loans					
Total Charge-offs	743	1,117	1,003	532	407
Recoveries					
Commercial Loans	(131)	(357)	(57)	(73)	(4)
Residential Real Estate Loans	(23)	(35)	(24)	(10)	(13)
Consumer Loans	(40)	(5)		(15)	(1)
Municipal Loans					
Total Recoveries	(194)	(397)	(81)	(98)	(18)
Net charge offs	549	720	922	434	389
Provision for loan loss	(1,438)	(955)	(1,607)	(1,133)	(808)
Addition from acquisition	(1,108)	(1,624)			
Sale of loans	213				
Balance at end of period	$ (6,902)	$ (5,118)	$ (3,259)	$ (2,574)	$ (1,875)
Ratio of net charge-offs to loans outstanding	0.13%	0.25%	0.47%	0.27%	0.33%

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, 2004.

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 $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 allowance for loan losses related to the acquisition of the Ontario Branch Portfolio was initially determined by reviewing each loan (except the consumer loan and real estate contract portfolios), assigning a risk grade commensurate with the Bank s prevailing grading system, and applying the allowance factor appropriate to the respective grade by the Bank. A representative percentage of the consumer loan portfolio was reviewed and the allowance for this portfolio was also computed based on grade assignment. For the real estate contract portfolio, all loans over $100,000 and all loans considered to have higher than moderate risk were reviewed. An allowance of the difference between the loan balance and 50% of the originally determined collateral value was established for these

loans. This (specific identification) calculation was determined from an analysis of prior losses from the real estate contract portfolio. The allowance for the remainder of the real estate contract portfolio was calculated based on the respective risk grade allocation. The allowance for the total Ontario Branch Portfolio amounted to

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approximately 4%. Beginning in July 2003, the allowance for the real estate contract portfolio was modified to approximately 4% on all loans not carrying a specifically identified allowance. The balance of the Ontario Branch portfolio is allocated based on the respective risk grades of each loan. The balance of the Ontario Branch portfolio has decreased substantially as a result of loan sales totaling approximately $2.7 million during 2004 and large prepayments since the purchase of the portfolio in 2003. The Bank sold an additional $1.3 million in Ontario loans during the first quarter of 2005.

The following table details loan repricing information for fixed and variable rate loans.

Maturity and Repricing for the Bank s
Loan Portfolio at December 31, 2004

LOAN REPRICING	Fixed Rate	Variable Rate	Total Loans
		(Dollars in thousands)	
0-90 days	$ 15,823	$ 139,326	$ 155,149
91-365 days	27,306	59,392	86,698
1 year-5 years	71,618	70,356	141,974
5 years or more	34,956	7,019	41,975
Total	$ 149,703	$ 276,093	$ 425,796

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, 2004 the Bank s loan portfolio was concentrated, by loan type, as follows:

Commercial	71.6%
Residential real estate	22.1%
Consumer	5.7%
Municipal	0.6%

These concentrations are typical for the markets served by the Bank, and management believes are comparable with those of the Banks peer group (banks of similar size and operating in the same geographic areas).

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 majority of the loans in the Bank s southern Idaho region. At December 31, 2004, agricultural loans of $92.4 million represent approximately 22% of the total loan portfolio. 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.

The real estate loan portfolio appears to pose the greatest overall risk of loan-type concentration. However, experienced lenders and consistently applied underwriting standards help to mitigate credit risk. Although real estate values tend to fluctuate somewhat with economic conditions, over time real estate collateral is generally considered one of the safest forms of collateral in regards to maintaining value.

The Bank loans to contractors and developers, and is also active in custom construction lending. The Bank has established concentration limits to include residential construction loans maturing in 18 months or less and commercial construction and development loans maturing in 36 months or less not to exceed 20% of the total loan portfolio, commercial real estate loans not to exceed 25% and other real estate (agricultural and land) loans not to exceed 25% of the total loan portfolio. In addition, total real estate loans with maturities exceeding 2 years are limited to 350% of the Bank s capital, surplus and capital notes. Residential construction loans at December 31, 2004 represented 7.92% of the Bank s total loan portfolio, commercial construction and development loans 2.06%, commercial real estate loans 21.6%, and other real estate loans 3.0%. Total real estate loans with maturities exceeding 2 years represented 208.4% of the Bank s capital, surplus and capital notes.

A notable concentration is currently present in the real estate contract secured portfolio as a result of the Bank s purchase of assets from Household Bank in January 2003. These contracts represented approximately 13.7% of the residential loan portfolio at December 31, 2004, compared to 33.1% of the residential loan portfolio at December 31, 2003. The nature of the portfolio presents a higher than average credit risk for the Bank. As a result, the Bank has maintained a greater loan loss allowance for this component of the loan portfolio, with a higher initial allocation plus a specific amount for those contracts identified as being impaired . During 2004, the Bank sold approximately $2.7 million of these real estate contract loans. During the first quarter of 2005, the Bank sold an additional $1.3 million of these loans.

In addition to the higher loan loss allowance for the contract segment of the real estate loan portfolio, 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 grew 34.1% to $102.8 million at December 31, 2004 from $76.6 million at December 31, 2003. The carrying value of the held-to-maturity securities portfolio increased 62.1% to $5.4 million from $3.3 million at December 31, 2003. The Company continues to invest most of its excess funds in the available-for-sale portfolio to provide more flexibility in managing the investment portfolio assets. As in 2003, the Company invested more in U.S. agency debentures in 2004, rather than direct U.S. government notes and bonds due to the more favorable yields of these agencies. Mortgage-backed securities also grew in 2004. These investments have allowed the Bank to maintain a shorter duration in the total investment portfolio to limit extension risk and position the Bank for a rising interest rate market. The municipal bond portfolio also saw a substantial increase during 2004 due to bonds acquired in the Snake River Bancorp/ Magic Valley Bank merger and a greater supply of attractive Idaho municipal bond issues. The average duration of the available-for-sale and the held-to-maturity portfolios was approximately 2.8 years and 1.7 years, respectively on December 31, 2004, compared to 1.7 years and 3.2 years, respectively on December 31, 2003.

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

Investment Portfolio Detail
As of December 31,

Carrying value as of December 31,	2004 Amount	Percent Change Prev. Yr.	2003 Amount	Percent Change Prev. Yr.	2002 Amount
			(Dollars in thousands)		
U.S. treasury securities and obligations of government agencies	$ 60,290	63.08%	$ 36,969	4.44%	$ 35,397
Mortgage-backed securities	40,156	17.99%	34,032	165.42%	12,822
Corporate Bonds	2,000	(64.29)%	5,601	56.67%	3,575
State and municipal bonds	5,721	71.49%	3,336	12.63%	2,962
Total	$ 108,167	35.31%	$ 79,938	45.99%	$ 54,756
Available for Sale	102,758	34.15%	76,602	47.90%	51,794
Held to Maturity	5,409	62.14%	3,336	12.63%	2,962
Total	$ 108,167	35.31%	$ 79,938	45.99%	$ 54,756

Investments held as of December 31, 2004
Mature as follows:

	One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(Dollars in thousands)					
U.S. treasury securities and obligations of government agencies	$ 6,810	3.91%	$ 46,569	3.29%	$ 6,911	3.21%	$	%	$ 60,290	3.35%
Corporate bonds	288	6.94%	1,712	4.53%		%		%	2,000	4.88%
Mortgage-backed securities	49	5.18%	15,715	3.24%	14,473	3.64%	9,919	3.56%	40,156	3.46%
State and municipal bonds (tax equivalent)	427	3.04%	3,670	3.20%	472	3.76%	1,152	%	5,721	3.34%
Total	$ 7,574	3.98%	$ 67,666	3.30%	$ 21,856	3.51%	$ 11,071	3.57%	$ 108,167	3.42%

Deposits

Deposits represent approximately 91% of the Bank s liabilities at December 31, 2004. The Bank gathers its deposit base from a combination of small business and retail sources. The retail base continues to grow with new and improved product offerings. However, management recognizes that customer service, not a vast retail branch network, is going to be the key to the Bank s customer growth. In 2004 the Bank experienced some changes in the typical sources of deposit growth as well as increased competition for depositors. Total deposits grew 45.3% in 2004 with non-interest bearing balancing 43.4% and interest-bearing deposits growing 45.8% over 2003 balances. NOW and money market accounts (personal, business and public) grew 50% to $171.5 million at December 31, 2004 from $114.3 million at December 31, 2003. The certificates of deposit portion of that total grew by 46.5%. As part of the Magic Valley Bank acquisition, the Bank acquired approximately $69.6 million of deposits.

Strong loan demand and the rise in short-term interest rates during the second half of 2004 is placing additional pressure on banks to raise rates paid on deposits and to grow deposit balances. The Bank has responded by remaining competitive in the traditional deposit products as well as offering repurchase agreements and a commercial sweep product to business customers.

The following table details repricing information for the Bank s time deposits with minimum balance of $100,000 at December 31, 2004 (in thousands):

Maturities		
Less than three months	$	15,102
Three to six months		13,556
Six to twelve months		17,277
Over twelve months		30,930
	$	76,865

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, 2004 there were no short-term borrowing balances outstanding and the Bank had unsecured credit lines of $10.0 million available. For 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, 2004, the Bank had outstanding notes with the FHLB of $5.0 million and the ability to borrow an additional $14.7 million.

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 1.75%, 0.58% and 2.05% at December 31, 2004, 2003 and 2002, respectively. The average balances of securities sold subject to repurchase agreements were $14.6 million, $13.4 million and $13.2 million during the years ended December 31, 2004, 2003 and 2002 respectively. The maximum amount outstanding at any month end during these same periods was $24.5 million, $17.2 million and $16.0 million, respectively. The weighted average interest rates during 2004, 2003 and 2002 were 1.09%, 1.24% and 2.09%, respectively. All repurchase agreements mature on a daily basis. At December 31, 2004, 2003 and 2002, the Company pledged as collateral, certain bonds and mortgaged-backed securities with aggregate amortized costs of $20.3 million, $17.8 million and $15.5 million, respectively. These investments and mortgage-backed securities had market values of $20.2 million, $18.3 million and $16.5 million at December 31, 2004, 2003 and 2002, respectively.

In January 2003 the Company issued $8.0 million of Trust Preferred securities through its newly formed 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, 2004 was 4.87%. Funds received from this borrowing were used to support planned expansion activities during 2004.

Employees

The Bank currently employees 270 full-time equivalent employees. None of the employees are represented by a collective bargaining unit. The Company believes it has good relations with its employees.

Supervision and Regulation

General

The Company is extensively regulated under federal and state laws. These laws and regulations are primarily intended to protect depositors, not shareholders. The discussion below describes and summarizes certain statutes and regulations. These descriptions and summaries are qualified in their entirety by reference to the particular statute or regulation. Changes in applicable laws or regulations may have a material effect on our business and prospects. Our operations may also be affected by changes in the policies of banking and other government regulators. We cannot accurately predict the nature or extent of the possible future effects on our business and earnings of changes in fiscal or monetary policies, or new federal or state laws and regulations.

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, and is therefore subject to regulation, supervision and examination by the Federal Reserve. In general, the Bank Holding Company Act 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 the Federal Reserve and must provide it with such additional information as it may require.

Holding Company Bank Ownership. The Bank Holding Company Act 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 Bank Holding Company Act 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 which, 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.

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. We are 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 its deposits are insured by the FDIC. As a result, the Bank is subject to supervision and regulation by the Idaho Department of Finance, the FDIC, and with respect to the Ontario branch, the State of Oregon Division of Finance and Corporate Securities. Once the Bank opens its office in Spokane Valley, Washington, it will be subject to supervision and regulation by the Washington Department of Financial Institutions. 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 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. These factors are also considered 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 as, and follow credit underwriting procedures that are not less stringent than, 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 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. As a result of Bank asset growth during 2004, the Bank will be subject to certain provisions of the FDICIA (Federal Deposit Insurance Corporation Improvement Act of 1991) that will require the Bank s management to assess and maintain its own internal control activities to ensure that the Bank maintains a safe and sound financial institution.

The Fair and Accurate Credit Transactions Act. The Fair and Accurate Credit Transactions Act (FACT) was signed into law on December 4, 2003. This law extends the previously existing Fair Credit Reporting Act. New provisions added by FACT address the growing problem of identity theft. Consumers will be able to initiate a fraud alert when they are victims of identity theft, and credit reporting agencies will have additional duties. Consumers will also be entitled to obtain free credit reports, and will be granted certain additional privacy rights.

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Regulators will be issuing rules to implement FACT over the next year, and some of these rules will likely impose additional duties on the Bank, although the Company does not believe that the application of these new rules will have a material effect on its operations.

Check 21 Act. Effective October 28, 2004, the Board of Governors of the Federal Reserve System (Board) adopted final amendments to Regulation CC and its commentary to implement the Check Clearing for the 21st Century Act (Check 21 Act). To facilitate check truncation and electronic check exchange, the Check 21 Act authorized a new negotiable instrument called a substitute check and provides that a properly prepared substitute check is the legal equivalent of the original check that can be processed just like the original check. The Check 21 Act does not require any bank to create substitute checks or to accept checks electronically.

Interstate Banking And Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act) permits nationwide interstate banking and branching under certain circumstances. This legislation generally authorizes interstate branching and relaxes federal law restrictions on interstate banking. Currently, 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.

FDIC regulations prohibit banks from using their interstate branches primarily for deposit production. The FDIC has implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

Both Idaho and Oregon enacted opting in legislation in accordance with the Interstate Act provisions allowing banks to engage in interstate merger transactions, subject to certain aging requirements. Both states 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.

Deposit Insurance

The Bank s deposits are currently insured to a maximum of $100,000 per depositor through the Bank Insurance Fund administered by the FDIC. The Bank is required to pay deposit insurance premiums, which are assessed semiannually and paid quarterly. 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.

The FDIC is also empowered to make special assessments on insured depository institutions in amounts determined by the FDIC to be necessary to give it adequate assessment income to repay amounts borrowed from the U.S. Treasury and other sources or for any other purpose the FDIC deems necessary.

Dividends

The principal source of the Company s cash reserves is dividends received from the Bank. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if doing so would reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. State laws also limit a bank s ability to pay dividends.

The Company currently intends to retain any earnings to help fund the growth of the Bank, and does not anticipate paying any cash dividends in the near future. The Company cannot predict when such cash dividends, if any, will ever be made. The payment of dividends, if any, will at all times be subject to the ability of the Bank to pay dividends to the Company as discussed above.

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 shareholders equity, surplus and undivided profits. Tier II capital generally consists of the allowance for loan losses, hybrid capital instruments, and subordinated debt. The sum of Tier I capital and Tier II capital represents an institution s total capital. The guidelines require that at least 50% of an institution s total capital consist of Tier I capital. Subject to certain restrictions, trust preferred securities may qualify as either Tier I or Tier II 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 total risk-based ratio of 8% and a minimum Tier I risk-based ratio of 4%. To be categorized as well capitalized, an institution must maintain minimum total risk-based and Tier I risk-based ratios of 10% and 6%, respectively.

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%. The well capitalized minimum Tier 1 leverage ratio is 5%.

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.

Corporate Governance and Accounting Legislation

Sarbanes-Oxley Act of 2002. On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002 (the Act) to address corporate and accounting fraud. The Act establishes a new accounting oversight board that will enforce auditing standards and restricts the scope of services that accounting firms may provide to their public company audit clients. Among other things, it also (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 new disclosure requirements regarding internal controls, off-balance-sheet transactions, and pro forma (non-GAAP) disclosures; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; and (iv) requires companies to disclose 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.

The Act also 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;

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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, we are subject to the requirements of the Act and related rules and regulations. We anticipate that we will incur additional expense as a result of the Act, which may have a material impact on our business. The magnitude of the impact is uncertain at this time, because estimates of the costs associated with general compliance vary widely.

Anti-terrorism Legislation

USA Patriot Act of 2001. On October 26, 2001, President Bush signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act) of 2001. Among other things, the USA Patriot Act (1) prohibits banks from providing correspondent accounts directly to foreign shell banks; (2) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals (3) requires financial institutions to establish an anti-money-laundering compliance program, and (4) eliminates civil liability for persons who file suspicious activity reports. The Act also increases governmental powers to investigate terrorism, including expanded government access to account records. The Department of the Treasury is empowered to administer and make rules to implement the Act. While we believe the USA Patriot Act may, to some degree, affect our record keeping and reporting expenses, we do not believe that the Act will have a material adverse effect on our business and operations.

Financial Services Modernization

Gramm-Leach-Bliley Act of 1999. The Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act, brought about significant changes to the laws affecting banks and bank holding companies. Generally, the Act (i) repealed the historical restrictions on preventing banks from affiliating with securities firms, (ii) provided a uniform framework for the activities of banks, savings institutions and their holding companies, (iii) broadened the activities that may be conducted by national banks and banking subsidiaries of bank holding companies, (iv) provided an enhanced framework for protecting the privacy of consumer information and (v) addressed 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. In addition, in a change from previous law, bank holding companies will be in a position to be owned, controlled or acquired by any company engaged in financially related activities, so long as the company meets certain regulatory requirements. The act also permits national banks (and, in states with wildcard statutes, certain state banks), either directly or through operating subsidiaries, to engage in certain non-banking financial activities.

We do not believe that the act will negatively affect our operations in the short term. However, to the extent the legislation permits banks, securities firms and insurance companies to affiliate, the financial services industry may experience further consolidation. This consolidation could result in a growing number of larger financial institutions that offer a wider variety of financial services than we currently offer, and these companies may be able to aggressively compete in the markets we currently serve.

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 can and does implement 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

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charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

Effect of Environmental Regulation

The Company s primary exposure to environmental risk is through its lending activities. In cases when management believes environmental risk potentially exists, the bank mitigates its environmental risk exposures by requiring environmental site assessments at the time of loan origination to confirm collateral quality as to commercial real estate parcels posing higher than normal potential for environmental impact, as determined by reference to present and past uses of the subject property and adjacent sites. Environmental assessments are typically required prior to any foreclosure activity involving non-residential real estate collateral. With regard to residential real estate lending, management reviews those loans with inherent environmental risk on an individual basis and makes decisions based on the dollar amount of the loan and the materiality of the specific credit.

We anticipate no material effect on capital expenditures, earnings or competitive position as a result of compliance with federal, state or local environmental protection laws or regulations.

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 2. PROPERTIES

At December 31, 2004, the Company currently operates 15 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)
Panhandle State Bank Branches				
IDAHO				
(Kootenai County)				
Coeur d Alene (1)	1000 Northwest Blvd. Coeur d Alene, ID 83814	3,228	May 2001	lease
Rathdrum	6878 Hwy 53 Rathdrum, ID 83858	3,410	March 2001	own
Post Falls	3235 E. Mullan Avenue Post Falls, ID 83854	3,752	March 2003	own

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City and County	Address	Sq. Feet	Date Opened or Acquired	Occupancy Status (Own/Lease)
(Bonner County)				
Ponderay	300 Kootenai Cut-Off Road Ponderay, ID 83852	3,400	October 1996	own
Priest River	301 E. Albeni Road Priest River, ID 83856	3,500	December 1996	own
Sandpoint	231 N. Third Street Sandpoint, ID 83864	10,000	May 1981	own
(Boundary County)				
Bonners Ferry	6750 Main Street Bonners Ferry, ID 83805	3,400	September 1993	own
Intermountain Community Bank Branches				
(Canyon County)				
Caldwell	418 South 9th Avenue Caldwell, ID 83605	6,480	March 2002	own
Nampa	521 12th Avenue South Nampa, ID 83651	5,000	July 2001	own
(Payette County)				
Payette Branch	175 North 16th Street Payette, ID 83661	5,000	September 1999	own
(Washington County)				
Weiser Branch	440 E Main Street Weiser, ID 83672	3,500	June 2000	own
Magic Valley Bank Branches				
(Twin Falls County)				
Twin Falls Branch	113 Main Ave W Twin Falls, ID 83301	10,798	November 2004	lease
(Jerome County)				
Jerome Branch	2680 S. Lincoln Jerome, ID 83338	480	November 2004	lease
(Gooding County)				
Gooding Branch		3,200	November 2004	own

	746 Main St Gooding, ID 83330			
OREGON **(Malheur County)**				
Ontario Branch	98 South Oregon Street Ontario, OR 97914	10,272	January 2003	lease

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City and County	Address	Sq. Feet	Date Opened or Acquired	Occupancy Status (Own/Lease)
ADMINISTRATIVE				
(Bonner County)				
Sandpoint Data Center	218 Main Street Sandpoint, ID 83864	1,900	March 1999	lease
Sandpoint Management Services	110 Main Street Sandpoint, ID 83864	3,280	June 2002	lease
(Kootenai County)				
Coeur d Alene Credit Services(1)	1000 Northwest Blvd. Coeur d Alene, ID 83814	1,580	October 2001	lease
Coeur d Alene Management Services(1)	1038 Northwest Blvd. Coeur d Alene, ID 83814	2,142	March 2003	lease
Coeur d Alene Administrative Services(1)	610 W. Hubbard Coeur d Alene, ID 83814	1,618	August 2004	lease
Future Coeur d Alene Branch and Administrative Services	Neider Avenue Coeur d Alene, ID 83814	23,100	May 2005 (estimated)	land lease own building

(1) These facilities will be vacated in May 2005 as all operations are consolidated into the new Coeur d Alene building

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 2004.

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 9, 2005, there were 8 Pink Sheet/

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Bulletin Board Market Makers. The range of high and low bid 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)

	2004		2003	
Quarter	**High**	**Low**	**High**	**Low**
1st	$ 16.00	$ 13.17	$ 7.30	$ 6.67
2nd	17.00	15.70	8.18	7.06
3rd	17.33	14.17	10.50	8.69
4th	18.33	15.00	13.00	9.83

(1) This table reflects the range of high and low bid prices for the Company s Common Stock during the indicated periods. Prices have been retroactively adjusted to reflect a 3-for-2 stock split that was effective March 10, 2005. The quotations merely reflect the prices at which transactions were proposed, and do not necessarily represent actual transactions. Prices do not include retail markup, markdown or commissions.

The approximate number of record holders of the Company s common stock as of March 10, 2005 was 639, representing 3,826,185 shares outstanding.

The Company historically has not paid cash dividends, nor does it expect to pay cash dividends in the near 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 2004.

Equity Compensation Plan Information

We currently maintain three 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, and the 1999 Director Stock Option Plan, each of which have been approved by the Company s shareholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 31, 2004:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)(1)	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)(1)
Equity compensation plans approved by shareholders	535,718	$ 8.85	154,935
Equity compensation plans not approved by shareholders			

Total	535,718	$ 8.85	154,935

(1) Includes shares to be issued upon exercise of options under plans of Snake River Bancorp, Inc., which were converted to Intermountain options as a result of its acquisition by Intermountain. Shares have not been adjusted for the 3-for-2 stock split, effective March 10, 2005.

During 2004 Intermountain purchased and subsequently retired 2,093 shares of common stock.

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

	For the Year Ended December 31,				
	2004(1)	2003(1)	2002	2001	2000
STATEMENTS OF INCOME DATA					
Total interest income	$ 27,314	$ 22,533	$ 16,787	$ 16,313	$ 14,709
Total interest expense	(5,712)	(4,970)	(3,919)	(6,123)	(5,716)
Net interest income	21,602	17,563	12,868	10,190	8,993
Provision for loan losses	(1,438)	(955)	(1,607)	(1,134)	(808)
Net interest income after provision losses on loans	20,164	16,608	11,261	9,056	8,185
Total other income	7,197	5,985	4,232	2,628	1,605
Total other expense	(20,843)	(17,026)	(11,589)	(8,760)	(6,378)
Income before income taxes	6,518	5,567	3,904	2,924	3,412
Income taxes	(2,172)	(1,906)	(1,314)	(960)	(1,108)
Net income	$ 4,346	$ 3,661	$ 2,590	$ 1,964	$ 2,304
Net income per share(2)					
Basic	$ 0.88	$ 0.77	$ 0.55	$ 0.43	$ 0.50
Diluted	$ 0.80	$ 0.72	$ 0.53	$ 0.42	$ 0.48
Weighted average common shares outstanding(2)					
Basic	4,951	4,735	4,669	4,584	4,611
Diluted	5,458	5,086	4,886	4,732	4,765
Cash dividends per share					

	December 31,				
	2004(1)	2003(1)	2002	2001	2000
BALANCE SHEET DATA					
Total assets	$ 597,680	$ 409,760	$ 287,413	$ 236,756	$ 195,861
Net loans	418,660	287,256	194,774	157,096	114,060
Deposits	500,923	344,866	243,583	192,542	176,172
Securities sold subject to repurchase agreements	20,901	17,156	15,970	13,081	1,757
	5,000	5,000			

Advances from Federal Home Loan Bank					
Other borrowings	16,527	8,279			
Shareholders equity	44,564	27,078	23,916	21,100	18,109

(1) Comparability is affected by the acquisition of Snake River Bancorp in November 2004 and a branch in 2003.

(2) Earnings per share and weighted average shares outstanding have been adjusted retroactively for the effect of stock splits and dividends, including the 3-for-2 stock split effective March 10, 2005.

KEY FINANCIAL RATIOS	Years Ended December 31, 2004	2003	2002
Return on Average Assets	0.91%	0.99%	1.01%
Return on Average Equity	13.71%	14.24%	11.52%
Average Equity to Average Assets	6.64%	6.80%	8.80%

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to provide a more comprehensive review of the Company s operating results and financial condition than can be obtained from reading the Consolidated Financial Statements alone. The discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto included as part of this Form 10-K.

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 that are contiguous, within 100 miles of its existing branches, in Idaho, Oregon, Washington and Montana. The Company is pursuing an aggressive balance of asset and earnings growth by focusing on increasing its market share in its present locations, building new branches and merging and/or acquiring community banks.

The Company is making 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 market share goals. Further, the Company continues to leverage its capital with two trust preferred debentures totaling approximately $16.5 million, obtained in anticipation of expansion into new markets.

Management and the Board of Directors remain committed to building a decentralized community banking strategy and further increasing the level of service we provide our 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.

In line with these goals, the Company has made two key acquisitions in the last two years. In November 2004, Snake River Bancorp, Inc. was merged with and into Intermountain, with Intermountain being the surviving corporation in the merger. Snake River s wholly owned subsidiary, Magic Valley Bank, was merged with and into the Bank. The three branches of Magic Valley Bank continue to operate as Magic Valley Bank, a division of Panhandle State Bank. The merger contributed approximately $13.0 million in capital, which increased the Company s capital base. Under the terms of the Snake River merger, Snake River shareholders received $8.22 in cash and 0.93 shares of Intermountain stock for each share of Snake River Bancorp Inc. stock. The Company s 2004 results of operations include 2 months of operations of the Magic Valley branches. As a result of the acquisition, the Bank also recorded $10.2 million in goodwill and $0.7 million in other intangible assets. The acquisition was made to expand our market territory into Idaho and better serve our customers in the Southern Idaho region.

Effective January 31, 2003, the former Orchard Bank branch of Household FSB in Ontario, Oregon was acquired and merged into the Intermountain Community Bank division of Panhandle State Bank. This acquisition added $39.4 million in net loans receivable, $14.7 million in cash and cash equivalents, and $60.7 million in deposits to the Company. As a result of the acquisition, the Company also recorded $1.2 million in goodwill and $0.7 million in other intangible assets. As a leader in the Ontario market, the branch improved convenience for our customers and strengthened the presence of Intermountain Community Bank in the Tri-County market of southwest Idaho and eastern Oregon.

The most significant perceived risk to the Company is credit quality, as poor credit quality can create significant earnings, capital and liquidity issues more quickly than other types of risk faced by the Bank. During 2004, the financial stability of the Company s customers appeared to improve over 2003, based on regional economic data and the Bank s own asset quality measurements. Total loans receivable in 2004 increased 46% while our net loan charge-off rate decreased to 0.13% of total loans from 0.25% in 2003. Non-accrual loans increased $1.0 million in 2004 to 0.29% of total loans. Loan delinquencies over 30-days at fiscal year end 2004 were 0.57%, down 1.02% from the 2003 level of 1.59%. This decrease was largely attributed to the 2004 sales of some of the real estate contracts, which were acquired with the Orchard Bank purchase. During 2004, the Bank sold approximately $2.7 million of the Orchard Bank real estate contracts. The Bank also sold approximately $1.3 million of these loans in the first quarter of 2005. These loans are sold without recourse to the Company.

Other significant areas of risk include interest rate risk, operational/execution risk, and human resources risk. To control interest rate risk, management closely monitors changing market rate conditions and bank portfolios and responds accordingly through both portfolio mix and pricing decisions. The rapid 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 positions, significant increases in our training budget, and the expansion of our internal 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. Management believes that its efforts in managing these and other risks have been successful, but that continued diligence is required.

In 2005, the Company plans to relocate the Coeur d Alene branch and administrative office from our present location on Northwest Boulevard to property leased on Neider Avenue between Highway 95 and Government Way. The new two-story, 23,000 square-foot building will house a full service banking facility and administrative offices. This new facility will serve as our primary Coeur d Alene office and will accommodate the Home Loan Center, our centralized real estate mortgage processing department, various administrative support departments and our new SBA Loan Servicing Center. The SBA center was initiated in 2003 to enhance the service, delivery and efficiency of the Small Business Administration lending process. The headquarters of the Company will continue to reside in Sandpoint with no immediate plans to move administrative activities that presently exist. In 2005, the Bank also intends to open its first branch in Washington State, in Spokane Valley.

As part of its strategic plan, the Bank replaced its core data and check processing systems during 2004 at an approximate cost of $1.3 million. This investment positioned the operating infrastructure of the Bank to improve efficiency and provided the capacity to support our planned growth and expansion. The Company will continue to expand market share in existing markets, enter new markets, and merge with 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.

The Company s growth in diluted earnings per share for 2004 increased 11% over 2003 while assets increased 46% over the same time period, resulting in another year of record income and asset growth. Asset growth was balanced between organic growth of 25% in virtually all existing branches and the acquisition of the three new branch offices in Twin Falls, Jerome and Gooding as a result of the Snake River Bancorp purchase.

For 2004, the Company realized net income of $4.3 million or $0.80 per share (diluted). This is an 11% increase in earnings per share over 2003 net income of $3.7 million, or $0.72 per share (diluted). Return on average equity (ROAE) and return on average assets (ROAA), common measures of bank performance, totaled 13.71% and 0.91%, respectively, compared to 14.24% and 0.99% in 2003. Continued strong asset growth and by the late-year acquisition of Snake River both contributed to the declines in ROAA and ROAE.

The Company declared a 3-for-2 stock split in February 2005, effective March 10, 2005. The Company paid a 10% stock dividend on July 30, 2003 and declared a 2-for-1 stock dividend effective December 18, 2003. The Company also declared a 10% stock dividend in the years 2000, 2001 and 2002.

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All per-share data computations are calculated after giving retroactive effect to stock dividends and the stock splits.

Total assets reached $597.7 million, a 45.9% increase from $409.8 million at December 31, 2003. Total loans experienced 45.7% growth to $418.7 million at December 31, 2004 from $287.3 million at the end of 2003. Total deposits grew from $344.9 million to $500.9 million during 2004 representing a 45.3% increase. At acquisition date, the Snake River acquisition contributed approximately $87.9 million in assets, $65.5 million in loans receivable, and $69.6 million in deposits. Performance at the Company over the past four years has largely been driven by continued commitment to high levels of customer service, an aggressive branch expansion plan, branch and bank acquisition efforts and successful face-to-face business development efforts.

The Company s net interest margin for the year ended December 31, 2004 was 4.94%, as compared to 5.03% for 2003 and 5.52% for 2002. Low market rates and heavy competition for both loans and deposits continued to pressure the Company s margin in 2004.

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

	For the Year Ended December 31, 2004		
	Average Balance	**Interest Income/ Expense**	**Yield**
	(Dollars in thousands)		
Loans receivable, net(1)	$ 334,704	$ 24,014	7.17%
Securities(2)	93,575	3,190	3.41%
Federal funds sold	8,686	110	1.27%
Total earning assets	$ 436,965	$ 27,314	6.25%
Cash and cash equivalents	14,584		
Office properties and equipment, net	10,264		
Other assets	9,524		
Total assets	$ 471,337		
Time deposits of $100,000 or more	52,576	1,622	3.09%
Other interest-bearing deposits	258,587	2,973	1.15%
Short-term borrowings	15,021	164	1.09%
Other borrowed funds	16,108	953	5.91%
Total interest-bearing liabilities	$ 342,292	$ 5,712	1.67%
Noninterest-bearing deposits	88,071		
Other liabilities	7,432		
Shareholders equity	33,542		
Total liabilities and shareholders equity	$ 471,337		

Net interest income	$ 21,602	
Net interest margin		4.94%

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Average Balance Sheets and Analysis of Net Interest Income

	For the Year Ended December 31, 2003		
	Average Balance	Interest Income/ Expense	Yield
	(Dollars in thousands)		
Loans receivable, net(1)	$ 266,416	$ 19,896	7.47%
Securities(2)	74,753	2,576	3.45%
Federal funds sold	7,819	61	0.78%
Total earning assets	$ 348,988	$ 22,533	6.46%
Cash and cash equivalents	12,362		
Office properties and equipment, net	9,133		
Other assets	4,576		
Total assets	$ 375,059		
Time deposits of $100,000 or more	$ 34,363	885	2.58%
Other interest-bearing deposits	217,201	3,332	1.53%
Short-term borrowings	14,665	177	1.21%
Other borrowed funds	10,528	576	5.47%
Total interest-bearing liabilities	276,757	$ 4,970	1.80%
Noninterest-bearing deposits	69,412		
Other liabilities	3,108		
Shareholders equity	25,782		
Total liabilities and shareholders equity	$ 375,059		
Net interest income		$ 17,563	
Net interest margin			5.03%

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Average Balance Sheets and Analysis of Net Interest Income

	For the Year Ended December 31, 2002		
	Average Balance	Interest Income/ Expense	Yield
	(Dollars in thousands)		
Loans receivable, net(1)	$ 174,908	$ 14,017	8.01%
Securities(2)	51,912	2,678	5.16%
Federal funds sold	6,354	92	1.45%
Total earning assets	233,174	16,787	7.20%
Cash and cash equivalents	10,215		
Office property and equipment, net	6,794		
Other assets	5,211		
Total assets	$ 255,394		
Time deposits of $100,000 or more	22,685	780	3.44%
Other interest-bearing deposits	144,128	2,852	1.98%
Borrowings	13,724	287	2.09%
Total interest-bearing liabilities	180,537	3,919	2.17%
Noninterest-bearing deposits	50,324		
Other liabilities	2,058		
Shareholders equity	22,475		
Total liabilities and shareholders equity	$ 255,394		
Net interest income		$ 12,868	
Net interest margin			5.52%

(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 2004 versus 2003

	Volume	Rate	Volume/Rate	Total

		(In thousands)		
Loans receivable, net	$ 5,595	$ (1,153)	$ (324)	$ 4,118
Securities	591	19	4	614
Federal funds sold	14	29	6	49
Total interest income	6,200	(1,105)	(314)	4,781
Time deposits of $100,000 or more	469	175	93	737
Other interest-earning deposits	572	(795)	(136)	(359)
Borrowings	546	(124)	(58)	364
Total interest expense	1,587	(744)	(101)	742
Net interest income	$ 4,613	$ (361)	$ (213)	$ 4,039

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Changes Due to Volume and Rate 2003 versus 2002

	Volume	Rate	Volume/Rate	Total
		(In thousands)		
Loans receivable, net	$ 4,693	$ (1,291)	$ 2,477	$ 5,879
Securities	879	(693)	(288)	(102)
Federal funds sold	36	(21)	(46)	(31)
Total interest income	5,608	(2,005)	2,143	5,746
Time deposits of $100,000 or more	457	160	(513)	104
Other interest-bearing deposits	1,290	(2,131)	1,322	481
Borrowings	516	(76)	26	466
Total interest expense	2,263	(2,047)	835	1,051
Net interest income	$ 3,345	$ 42	$ 1,308	$ 4,695

Net Interest Income 2004 Compared to 2003

The Bank s net interest income increased to $21.6 million in 2004 from $17.6 million in 2003. The net interest income increase attributable to volume increases was a favorable $4.6 million over 2003. However, interest-earning assets were subject to downward rate pressure during 2004 as well as extensive competition for loans. These factors, coupled with limited ability to move deposit rates lower because of the low interest rate environment, created a $361,000 decrease in net interest income attributable to rate variances. This impact to net interest income was considerably more in 2004 than in 2003 where interest rate changes resulted in an increase to interest income by $42,000. Rates earned and paid on interest earning assets and liabilities faced upward pressure during the end of 2004, however the effect of this did not have a large impact on the overall results of the year.

The yield on interest-earning assets decreased 0.21% in 2004 versus 2003. The cost of interest-bearing liabilities decreased 0.13%. The loan yield drop of 0.30% represented the largest combined impact to net yield. The cost of $100,000 and over time deposits increased 0.51% in the face of rate increases during the second half of 2004 and represented the most drastic rate change from 2003. The cost of other borrowed funds increased 0.44% as the Bank issued an additional $8.0 million in Trust Preferred Securities Debentures at a floating rate. The increase by 1.25% in the prime lending rate directly affected the Bank s variable rate loan portfolio, which exceeded 55% of the portfolio at December 31, 2004, but was offset somewhat by a corresponding increase in the cost of interest bearing sources of funding. The investment securities portfolio experienced a decrease in yield of 0.04% and the yield on federal funds sold rose during 2004 by 0.49% in line with the short-term investment market.

Net Interest Income 2003 Compared to 2002

The Bank s net interest income increased $4.7 million in 2003 versus 2002. The net interest income increase attributable to volume increases was a favorable $3.3 million over 2002. However, interest-earning assets were subject to downward rate pressure during 2003 as well as extensive competition for loans. These factors, offset by the change in the mix of interest bearing liabilities, created a $42,000 increase in net interest income attributable to rate variances. However, this impact to net interest income was considerably less in 2003 than in 2002 where downward interest rate pressure resulted in a decrease to interest income of $1.3 million.

The net yield on interest-earning assets decreased 0.74% in 2003 versus 2002. The cost of interest-bearing liabilities decreased 0.37%. The loan yield drop of 0.54% represented the largest combined impact to net yield. However, the cost of $100,000 and over time deposits decreased 0.86% in the face of rate decreases during 2003 and represented the most drastic rate change from 2002. As the Bank has grown and expanded its customer base, there are more opportunities to underwrite larger, more competitively priced loans that exist in the current market. The drop by

0.25% in the prime rate and the decreasing cost

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of interest bearing sources of funding during 2003 directly affected the Bank s variable rate loan portfolio, which was approximately 55% of the portfolio at December 31, 2003. The investment securities portfolio experienced a decrease in yield of 1.71% and the yield on federal funds sold also fell during 2003 by 0.67% in line with the short-term investment market.

The Company expects continued increases in market interest rates in 2005, with the yield curve flattening as short-term rates increase at a faster rate than long-term rates. These changes will increase both the yield on interest-earning assets and the expense associated with interest-bearing liabilities. See Item 7A below for a further discussion on the interest-rate sensitivity of the Company s assets and liabilities.

Provision for Loan Losses

Management continually evaluates allowances for estimated loan losses and based on this evaluation, charges a corresponding provision against income. The Bank maintained its credit quality in 2004, even with significant loan growth. This resulted in a decline in the allowance for loan losses as a percentage of total loans receivable from 1.75% in 2003 to 1.62% in 2004. The provision for loan losses totaled $1.4 million in 2004, compared to $955 thousand in 2003. The $483 thousand increase in the provision was primarily caused by significant growth in the size and mix of the loan portfolio. Net chargeoffs in 2004 totaled $549 thousand versus $720 thousand in 2003. At December 31, 2004, the total allowance for loan losses was $6.9 million compared to $5.1 million at the end of the prior year. The Snake River acquisition added $1.1 million to the 2004 allowance. With the rapid growth in the loan portfolio, management continues to enhance its credit quality efforts by recruiting individuals with strong credit experience and providing additional training for our lending officers.

Other Income

The following table details dollar amount and percentage changes of certain categories of other income for the three years ended December 31, 2004.

Other Income	2004 Amount	% of Total	Percent Change Prev. Yr.	2003 Amount	% of Total	Percent Change Prev. Yr.	2002 Amount	% of Total
			(Dollars in thousands)					
Fees and service charges	$ 6,081	84%	14%	$ 5,321	89%	52%	$ 3,493	83%
BOLI income	257	4%	(6)%	273	4%	150%	109	2%
Net gain on sale of securities	49	1%	26%	39	1%	(91)%	427	10%
Other income	810	11%	130%	352	6%	73%	203	5%
Total	$ 7,197	100%	20%	$ 5,985	100%	41%	$ 4,232	100%

Loan fees and service charges on deposit accounts continue to be the Bank s primary other income. Both areas have experienced considerable growth over the past several years. Continued loan growth and expanded mortgage volumes generated the large percentage increase in loan fees. Mortgage volume is expected to remain stable in 2005, except for increases related to the Magic Valley acquisition, which will increase the overall level of loan fees in the coming year. Growth in core deposit accounts and non-sufficient funds fees have been the primary contributors to increases in service charge income over the past several years. The Bank sold additional securities in 2002 to provide liquidity and shorten the duration of the investment portfolio, generating the reported gains. Since then, investment sales have been relatively limited as additional liquidity was not needed to fund loan growth. Other income includes secured deposit program servicing fees, other miscellaneous service fees, investment and insurance income, merchant credit card fees and debit card fees. Income in these areas has continued to expand with the growth of the Bank. In

particular, fees from servicing deposit accounts securing credit card portfolios grew rapidly in 2004. Fees from these programs totaled $526 thousand in 2004, a 178% increase over the prior year.

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As an ongoing process, the Bank continues to explore other possible non-interest income sources, including expanded SBA loan sales, additional services for businesses, non-profits and professionals, and stronger investment and insurance sales.

Operating Expenses

The following table details dollar amount and percentage changes of certain categories of other expense for the three years ended December 31, 2004.

Other Expense	2004 Amount	% of Total	Percent Change Prev. Yr.	2003 Amount	% of Total	Percent Change Prev. Yr.	2002 Amount	% of Total
	(Dollars in thousands)							
Salaries and employee benefits	$ 12,525	60%	21%	$ 10,378	61%	39%	$ 7,442	64%
Occupancy expense	2,853	14%	14%	2,493	15%	46%	1,704	15%
Printing, postage and supplies	869	4%	8%	803	5%	40%	575	5%
Other expense	2,264	11%	54%	1,467	8%	60%	916	8%
Fees and service charges	1,023	5%	16%	885	5%	123%	397	3%
Advertising	570	3%	19%	480	3%	51%	318	3%
Legal and accounting	739	3%	42%	520	3%	119%	237	2%
Total	$ 20,843	100%	22%	$ 17,026	100%	47%	$ 11,589	100%

Similar to 2003 and 2002, salaries and employee benefits continued to be the majority of non-interest expense in 2004. As the Company has grown in total assets, number of branches and product offerings, the number of full-time equivalent employees at the Bank has also grown from 123 at the beginning of 2002 to 270 at December 31, 2004. In November 2004, the Bank acquired Snake River Bancorp and its wholly owned subsidiary, Magic Valley Bank, which consisted of three branches. Magic Valley Bank had 33 employees which were incorporated into the Company s staffing. In January 2003, Intermountain acquired employees from the Ontario branch of Household Bank, Real Estate Contracts Department and Secured Savings Department, and opened branches in Post Falls and Caldwell. It also added additional loan and deposit personnel in existing offices. To support branch growth and additional future opportunities, various administrative departments including operations, credit administration and relationship services have expanded staff during the past year. As of December 31, 2004, the Company s assets per full-time equivalent employee ratio was $2.21 million, compared to $1.92 million at December 31, 2003. The Company expects the asset ratio to continue to increase as a result of production increases from the new branches opened in the last few years.

Consistent with the Company s growth strategy, occupancy and equipment expense grew significantly in 2004 and 2003. The expense increase was primarily caused by the full-year effect of operational costs of branches built and added in 2003, increased space needs for administrative staff growth, and the addition of significant new computer hardware and software during the year. It is anticipated that this expense will increase again in 2005 as the technology upgrades completed in 2004 are subject to full-year amortizations. The completion of the new Coeur d Alene facility and additional expansion costs are also expected to contribute to increased costs. Increases in 2003 from 2002 were primarily related to the Orchard Bank acquisition and two new branches opened during that year.

Other expense increased rapidly in both 2003 and 2004. Primary contributors include significant increases in training, travel expenses, telecommunications costs and one-time payments related to contract terminations as the Company s core processing systems were upgraded. As part of its strategic plan, management has placed much more

emphasis on training, resulting in cost increases in these areas. This is expected to continue in 2005, as the Bank focuses on additional customer service, sales and systems training. These increased expenses continue to support the Company s commitment to building and supporting an infrastructure that will allow the Company to better serve its customer base. Telecommunication costs have increased as a result of the rapid growth, but the Bank is developing and deploying more

efficient voice and data systems for the future. Customer account losses increased in 2003 as a result of significant growth in the Bank and the move into more metropolitan areas. In 2004, customer account losses moderated, but the Bank incurred a number of one-time charges related to the termination of various vendor contracts as a result of systems upgrades. This is not expected to repeat in 2005, but external fraud is becoming a bigger concern for the Bank. Management is investing in additional training and systems to limit this type of risk.

The increase in fees and service charges moderated substantially in 2004, as the Bank brought more item processing in-house and reduced services provided by correspondent banks. The big increase in 2003 over 2002 related to the purchase of the Orchard branch and the need to out-source item processing until Orchard s core processing system was integrated with Intermountain s in 2004. Changes in printing, postage and supplies followed a similar path, and were aided in 2004 by the conversion to image-based statements. We expect continued moderation in this area, as efficiencies allow us to reduce our vendor reliance even more.

Public relations and advertising expense totaled $570,000 for 2004, a 19% increase over the $480,000 expense in 2003. As in 2003, new market development and the need to market over expanded areas caused the increase. Management expects some increases in this category in 2005 simply because of the Bank s growth, but generally the Bank is improving the effectiveness of its marketing spending.

Legal and accounting expense increased in 2004 as the Company completed its registration with the Securities and Exchange Commission in June 2004 and made other legal and structural changes related to this registration. The increase from 2002 to 2003 largely related to the Orchard acquisition and preparatory costs for registering as a public company in 2004. It is anticipated that legal and accounting expense will increase in 2005 as the Company complies with regulatory requirements including the Sarbanes-Oxley Act of 2002, FDICIA and additional CRA requirements.

Cost management continues to be a high priority issue for management and the Board, even during this period of rapid growth. The Bank continues to review various processes for potential efficiency gains, and will be employing additional technology to slow the growth in salary expense. The Company is focused on increasing its assets per full time equivalent employee (FTE) ratio by leveraging the significant investments made in both people and technology harder in 2005, and slowing the increases in salary expense relative to net interest and other income growth in future years.

Financial Position

Total assets increased by $187.9 million or 46% during 2004. This increase was driven by organic growth of $100.0 million, or 25%, and acquisition growth of $87.9 million, or 21%. The majority of the asset growth resulted from growth in loans receivable. Loans receivable increased by $131.4 million or 45.7% compared to 2003, of which $65.9 million was generated in the Bank s existing markets and $65.5 million was generated by the acquisition of Snake River. Strong loan demand and proactive business development efforts by the Bank s production officers created the significant increase in 2004.

Assets increased in 2003 by $122 million, or 43%. Again, the increase was split relatively equally between strong growth in existing markets and balances purchased as part of the acquisition of Orchard Bank. Net loans receivable increased by $92 million, or 48% in 2003, of which $39.4 million was acquired in the Orchard transaction.

Investments in securities increased by 35% from 2003, totaling $108.2 million at December 31, 2004, compared to $79.9 million at December 31, 2003. Investments remained relatively constant at 18% of total assets compared to 20% for the previous year. Management continues to manage the investment portfolio to achieve reasonable yield, while maintaining the liquidity necessary to support the rapidly growing loan portfolio. A rising rate environment presents both opportunities and challenges in managing this portfolio, as current unrealized losses limit flexibility, while reinvestment at higher rates should provide improved future income.

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Increases in office properties and equipment at December 31, 2004, of $3.5 million, or 37% from December 31, 2003 supported the bank s continuing evolution. The Snake River acquisition accounted for $1.8 million of the growth in this balance sheet item. Investments in new data and check processing systems of $1.3 million and in the new Coeur d Alene building of $1.2 million also contributed to the overall increase. The investment in the new data processing systems will provide critical support for the Bank s future business strategies and ongoing commitment to superior customer service. At a total cost of $3.8 million, the Coeur d Alene building is scheduled to open in May of 2005 and will house both the Coeur d Alene branch and administrative offices. Looking to the future, the Bank will continue to expand in areas where it can attract high-quality staff and capitalize on market opportunities, resulting in probable future increases in office properties and equipment.

Goodwill and other intangible assets increased to $12.6 million at December 31, 2004, from $1.8 million at December 31, 2003. The Company added $10.2 million in goodwill and $0.7 million of core deposit intangible assets in connection with the Snake River acquisition. Goodwill and other intangible assets equaled 2% of total assets at December 31, 2004. Goodwill and other intangible assets increased $1.8 million during 2003 as a result of the January 2003 purchase of the Ontario branch of Household FSB.

To fund the asset growth, liabilities increased correspondingly by $170.4 million, or 45% from 2003. Most of the increase was in traditional customer deposits, which grew $156.1 million or 45% from 2003 balances. The Snake River acquisition contributed $69.6 million of this growth, while organic growth from our existing markets accounted for the remaining $86.5 million. The majority of the increase in deposits was in NOW and money market accounts, which grew $57.2 million, or 50% from the previous year. Certificates of deposit also increased substantially during the year, growing by $50.4 million, or 47% from 2003.

Deposits as of December 31, 2003 increased by $101.3 million over December 31, 2002, or 42%. The acquisition of Orchard Bank contributed $60.7 million of this increase, while growth in our other markets contributed $40.6 million. While total interest-bearing deposits grew 44% over 2002, the certificates of deposits portion of that total grew by 42%. Over the last several years, strong penetration in our existing markets and rapid growth in new branches combined with market forces, including volatile equity markets to produce the increases. As interest rates rise and customers explore other investment and savings options, management expects organic deposit growth to be more difficult in the near future. To combat this, the Bank is focused on additional training and technology support for our production staff, as well as expanded use of other funding alternatives.

Other borrowings increased $8.2 million as the Bank issued an additional $8.0 million of Trust Preferred Securities in March 2004. As with the 2003 trust preferred issuance, the proceeds from this borrowing were used to fund the Company s expansion.

Total shareholders equity increased by $17.5 million from $27.1 million at December 31, 2003 to $44.6 million at December 31, 2004. This increase is due to the retention of the Company s earnings and $13.0 million of additional equity issued as part of the Snake River acquisition. Total shares outstanding increased to 3.8 million shares, including an additional 504,460 shares issued to Snake River shareholders in the purchase transaction. Total shareholders equity grew by $3.2 million from $23.9 million at December 31, 2002 to $27.1 million at December 31, 2003. The increase was primarily due to retention of net income of $3.7 million during 2003. 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 shareholder s investment in the Company. Capital grows through the retention of earnings, the issuance of new stock, and through the exercise of incentive stock options. Capital formation allows the Company to grow assets and provides flexibility and protection in times of adversity. Total

equity on December 31, 2004 was 7.5% of total assets. The largest component of equity is common stock representing 68% of total equity. Retained earnings amounts to 33% and the remaining negative 1% 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, 2004, the Company s Tier I capital to risk weighted assets was 9.78%, compared to 10.52% at December 31, 2003. The decrease in the Company s Tier I capital ratios at December 31, 2004 compared to December 31, 2003 is primarily a result of the Snake River Bancorp, Inc. acquisition. It is anticipated that in the future, the Company will build capital through the retention of earnings and other sources, including a possible stock offering. 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.

During the second quarter 2003, the Company instituted a stock repurchase program to purchase up to 38,462 shares or approximately 3% of its then outstanding shares of common stock from existing shareholders. The offer expired on May 30, 2003, at which time the Company had repurchased a total of 15,360 shares or approximately 1.1% of the shares outstanding.

In July 2003, the Company approved a 10% stock dividend to all shareholders of record as of July 30, 2003. The Company has declared 10% stock dividends in each of the four years prior to 2003. In addition to the 10% stock dividend declared in 2003, there was a 2-for-1 stock split effective to all shareholders of record as of December 17, 2003.

On November 2, 2004, Snake River Bancorp, Inc. was merged with and into Intermountain, with Intermountain being the surviving corporation in the merger. Intermountain issued 504,460 shares of common stock in exchange for all of the stock of Snake River Bancorp, Inc. During 2004, Intermountain purchased and subsequently retired 2,093 shares of common stock. 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.

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The following table sets forth the Company s actual capital ratios for 2004, 2003 and 2002 as well as the quantitative measures established by regulatory authorities.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
CAPITAL ADEQUACY	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2004						
Total Capital (to Risk Weighted Assets)	$ 54,540	11.24%	$ 38,804	8%	$ 48,506	10%
Tier 1 Capital (to Risk Weighted Assets)	47,460	9.78%	19,402	4%	29,103	6%
Tier 1 Capital (to Average Assets)	47,460	8.66%	22,431	4%	27,406	5%
December 31, 2003						
Total Capital (to Risk Weighted Assets)	$ 36,983	11.77%	$ 25,128	8%	$ 31,410	10%
Tier 1 Capital (to Risk Weighted Assets)	33,042	10.52%	12,564	4%	18,846	6%
Tier 1 Capital (to Average Assets)	33,042	8.16%	16,206	4%	20,258	5%
December 31, 2002						
Total Capital (to Risk Weighted Assets)	$ 25,976	11.46%	$ 18,141	8%	$ 22,676	10%
Tier 1 Capital (to Risk Weighted Assets)	23,136	10.20%	9,070	4%	13,605	6%
Tier 1 Capital (to Average Assets)	23,136	8.14%	11,365	4%	14,206	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, maturity of investment securities, and loan payments. 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, 2004 were 98.9% of total deposits, compared to 96.5% at December 31, 2003. During 2004, the Company experienced a $162.6 million or 48.8% increase in its core deposit base. Nearly $37.0 million of the growth in core deposits occurred in noninterest-bearing deposits. Deposits acquired in the Snake River acquisition totaled $69.6 million. Deposit growth has generally kept pace with internal loan demand, resulting in minimal liquidity pressure for the Bank in the past. In the future, management anticipates increasing competition for deposits and increasing loan demand, potentially creating some additional liquidity pressure.

Overnight-unsecured borrowing lines have been established at US Bank, the Federal Home Loan Bank of Seattle and with the Federal Reserve Bank of San Francisco. At December 31, 2004, the Company had approximately

$10.0 million of overnight funding available and no overnight fed funds sold. 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. The Company s loan portfolio also contains approximately

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$11.1 million in guaranteed government loans, which can be sold on the secondary market. Given management s continued expectation of strong asset growth and a more difficult competitive environment for deposits, management expects to utilize these alternative funding sources to a greater extent in the future. As such, management is upgrading its asset and liability management process, expertise and technology to effectively control potential future risks in this area.

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.

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, 2004.

	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),(2)	$ 21,527	$	$	$ 5,000	$ 16,527
Capital lease obligations					
Operating lease obligations(3)	5,832	562	898	871	3,501
Purchase obligations(2)(4)	2,630	2,630			
Other long-term liabilities reflected on the registrant s balance sheet under GAAP(2)					
Total	$ 29,989	$ 3,192	$ 898	$ 5,871	$ 20,028

(1) Excludes interest payments. See Notes 7 and 8 of Notes to Consolidated Financial Statements.

(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 .

(3) Excludes operating lease payments for a new lease acquired in January 2005 for the Spokane Valley Branch. Total annual payments under the lease agreement will be $34,000 annually through 2009.

(4)

In August 2004, the Company entered into an agreement to construct a new office building in Coeur d Alene. It is anticipated that the building will be completed in May 2005.

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, which impacts net earnings. During the last two years, inflation, as measured by the Consumer Price Index, has not increased significantly. 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 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 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 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 loss experience, trends in losses and delinquencies, growth of loans in particular markets, and known changes in economic conditions in each particular lending market.

Management believes the allowance for loan losses was adequate at December 31, 2004. 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.

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 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, 2004. 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 periodically. No impairment was considered necessary during the year ended December 31, 2004. 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, 2004.

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

SFAS No. 123 (revised 2004)(SFAS 123R), Share-Based Payment . In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004). SFAS 123R replaces SFAS No. 123 Accounting for Stock-Based Compensation and supersedes

Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees . SFAS 123R will require that the compensation cost relating to share-based payment transactions be recognized in the Company s financial statements, eliminating pro forma disclosure as an alternative. That cost will be measured based on the grant-date fair value of the equity or liability instruments issued. SFAS 123R is effective for Intermountain as of July 1, 2005. The Company believes the adoption of SFAS 123R will have a material impact to the Company and estimates the 2005 pre-tax gross compensation expense to be $112,000 for the six months of 2005 for which SFAS 123R will be effective. For years 2006 and beyond, a full year of compensation expense will be recognized.

FIN No. 46R Consolidation of Variable Interest Entities an Interpretation of Accounting Research Bulletin No. 51 . In December 2003, the FASB issued FIN No. 46. FIN 46 (Revised), Consolidation of Variable Interest Entities (FIN No. 46R), which provides further guidance on the accounting for variable interest entities. Intermountain adopted FIN No. 46R as of December 31, 2003, and the Company has applied the provisions of FIN No. 46R beginning in the first quarter of 2004 by deconsolidating its subsidiary statutory trusts that issue Trust Preferred Securities to investors. The amounts payable to these trusts continue to be treated as other borrowings. The adoption of FIN No. 46R did not have a material effect on Intermountain s consolidated financial statements.

In July 2003, the Board of Governors of the Federal Reserve issued a supervisory letter instructing bank holding companies to continue to include the trust preferred securities in their Tier 1 capital for regulatory capital purposes until notice is given to the contrary. In May 2004, the Federal Reserve Board requested public comment on a proposed rule that would retain trust preferred securities in the Tier 1 capital of bank holding companies, but with stricter quantitative limits and clearer qualitative standards. The comment period ended July 11, 2004, but no formal ruling has been issued to date. Under the proposal, after a three-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25 percent of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. The Federal Reserve intends to review the regulatory implications of any accounting treatment changes and, if necessary or warranted, provide further appropriate guidance. There can be no assurance that the Federal Reserve will continue to allow institutions to include trust preferred securities in Tier 1 capital for regulatory capital purposes. As of December 31, 2004, assuming the Company was not allowed to include the $16.0 million in trust preferred securities issued by Intermountain Statutory Trust I and II in Tier 1 capital, the Company would still exceed the regulatory required minimums for capital adequacy purposes. If the trust preferred securities were no longer allowed to be included in Tier 1 capital, the Company would also be permitted to redeem the capital securities, which bear interest at 6.75% and 4.87%, respectively, without penalty.

FASB Emerging Issues Task Force (EITF) Issue 03-1: The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . In November 2003 and March 2004, the FASB s EITF issued a consensus on EITF Issue 03-1. EITF 03-1 contains new guidance on other-than-temporary impairments of investment securities. The guidance dictates when impairment is deemed to exist, provides guidance on determining if impairment is other than temporary, and directs how to calculate impairment loss. Issue 03-1 also details expanded annual disclosure rules. In September 2004, the FASB s EITF issued EITF Issue No. 03-1-1 Effective Date of Paragraphs 10-20 of EITF Issue 03-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* , which delays the effective date for the measurement and recognition guidance contained in paragraphs 10-20 of EITF 03-1 to be concurrent with the final issuance of EITF 03-1-a Implementation Guidance for the Application of Paragraph 16 of EITF 03-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* . EITF 03-1 is currently being debated by the FASB in regards to final guidance and effective date with a comment period that ended October 29, 2004. EITF 03-1, as issued, was originally effective for periods beginning after June 15, 2004 and the disclosure requirements of this consensus remain in effect. The adoption of the original EITF 03-1 (excluding paragraphs 10-20) did not have a material impact on the Company s financial position or results of operations. The FASB s final

guidance on EITF Issue 03-1 may alter the criteria by which the Company assesses if an impairment is temporary or permanent.

Statement of Position 03-3 (SOP 03-3): Accounting for Certain Loans or Debt Securities Acquired in a Transfer . In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 03-03, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP). This SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It also includes such loans acquired in purchase business combinations. This SOP does not apply to loans originated by the entity. This SOP limits the yield that may be accreted and requires that the excess of contractual cash flows over cash flows expected to be collected not be recognized as an adjustment of yield, loss accrual, or valuation allowance.

This SOP prohibits carrying over or creation of valuation allowances in the initial accounting for loans acquired in a transfer that are within its scope. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. In management s opinion, the adoption of this pronouncement will not have a material impact on the Company s financial position or results of operations.

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 response to interest rate changes.

Currently, the Company s one year interest sensitive gap is negative $87.6 million, or negative 16.0% of total earning assets. This means, 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 may reprice within three months. Changes in rates offered on these types of deposits tend to lag changes in market interest rates, thereby potentially reducing some of the impact of the negative gap position. The current gap position falls within the risk tolerance levels established by the Company s Board.

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

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(NII) and the estimated economic value of the company to changes in interest rates. The simulation 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, assuming a projection of balance sheet growth, given a 300 and 100 basis point movement in interest rates. It also estimates the impact of the same rate movements on the economic value of the organization, which is an estimate of the fair-market value of the Company s assets minus its liabilities. Tolerance limits are also established for this measurement. 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 expert The following table represents the estimated sensitivity of the Company s net interest income as of December 31, 2004 and 2003 compared to the established policy limits. The model results for both years fell within the risk tolerance guidelines established by the committee, with the exception of the 300 basis point scenario in 2003. Given the extremely low market rate environment of 2003, a 300 basis point drop in rates was considered to be highly unlikely. The following table represents the estimated sensitivity of the Company s net interest income as of December 31, 2003 and 2004 compared to the established policy limits:

12 Month Cumulative % effect on NII	Policy Limit %	12-31-03	12-31-04
+100bp	+3.0 to 3.0	0.26	0.78
+300bp	+8.0 to 8.0	0.15	6.92
100bp	+3.0 to 3.0	1.86	3.07
300bp	+8.0 to 8.0	9.13	8.59

At December 31, 2004, the Company calculated that the fair-market value of the Company would change by negative 21.64%, negative 3.93%, 6.09% and 15.70% for a +300, +100, 100 and 300 basis point change in interest rates, respectively. Again, these changes were within the established policy limits.

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, 2004
(dollars in thousands)

	Within Three Months	After Three Months but within One Year	After One Year but within Five Years	After Five Years	Total
Loans receivable and held for sale	$ 160,835	$ 86,698	$ 141,974	$ 41,975	$ 431,482
Securities	318	7,256	67,666	32,927	108,167
Federal funds sold	8,330				8,330
Time certificates and interest cash	104	100			204
Total earning assets	$ 169,587	$ 94,054	$ 209,640	$ 74,902	$ 548,183
Allowance for loan losses	(2,673)	(1,007)	(1,669)	(1,553)	(6,902)
Total earning assets, net	166,914	93,047	207,971	73,349	541,281
Interest bearing demand deposits(1)	$ 171,473	$	$	$	$ 171,473
Savings deposits and IRA(1)	51,841	3,042	5,984	246	61,113
Time deposits	32,857	59,248	66,540	65	158,710
Total deposits	$ 256,171	$ 62,290	$ 72,524	$ 311	$ 391,296
Repurchase agreements	17,568	3,333			20,901
FHLB advances			5,000		5,000
Other borrowed funds	8,248		8,279		16,527
Total interest-bearing liabilities	$ 281,987	$ 65,623	$ 85,803	$ 311	$ 433,724
Net interest rate sensitivity gap	$ (115,073)	$ 27,424	$ 122,168	$ 73,038	$ 107,557
Cumulative gap	$ (115,073)	$ (87,649)	$ 34,519	$ 107,557	

(1) Includes deposits with no stated maturity.

The following table displays expected maturity information and corresponding interest rates for all interest-sensitive assets and liabilities at December 31, 2004.

Expected Maturity Date at December 31, 2004

	2005	2006-07	2008-09	Thereafter	Total
			(Dollars in thousands)		
Interest-sensitive assets:					
Commercial loans	$ 132,059	$ 45,736	$ 42,676	$ 84,312	$ 304,783
Average interest rate	6.45%	6.96%	7.00%	6.81%	
Residential real estate loans(1)	40,105	17,908	11,737	30,106	99,856
Average interest rate	6.75%	7.10%	7.37%	6.73%	
Consumer loans	4,286	7,174	7,559	5,226	24,245
Average interest rate	5.47%	8.11%	8.07%	8.13%	
Municipal loans	1,293	507	88	710	2,598
Average interest rate	2.96%	3.79%	4.76%	4.30%	
Investments	7,574	16,742	50,924	32,927	108,167
Average interest rate	4.01%	3.51%	4.32%	3.53%	

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	2005	2006-07	2008-09	Thereafter	Total
			(Dollars in thousands)		
Federal funds sold	8,330				8,330
Average interest rate	2.00%	0.00%	0.00%	0.00%	
Certificates and interest bearing cash	204				204
Average interest rate	3.17%	0.00%	0.00%	0.00%	
Total interest-sensitive assets	$ 193,851	$ 88,067	$ 112,984	$ 153,281	$ 548,183
Deposits:					
Savings	$ 54,982	$ 4,234	$ 1,651	$ 246	$ 61,113
Average interest rate	0.59%	2.69%	3.44%	5.73%	
Money market and NOW	171,473				171,473
Average interest rate	0.62%	0.00%	0.00%	0.00%	
Time certificates	92,108	59,432	7,105	65	158,710
Average interest rate	2.98%	2.57%	3.50%	5.88%	
Repurchase agreements	20,901				20,901
Average interest rate	1.97%	0.00%	0.00%	0.00%	
Other borrowed funds			5,000	16,527	21,527
Average interest rate	0.00%	0.00%	2.71%	5.54%	
Total interest-sensitive liabilities	$ 339,464	$ 63,666	$ 13,756	$ 16,838	$ 433,724

(1) Includes loans held for sale.

Management will continue to refine its interest rate risk management by performing additional validity testing of the current model, expanding the number of scenarios tested, and investigating more advanced 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.

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.

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Changes in Internal Control over Financial Reporting

There are no changes in Intermountain s internal control over financial reporting that occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, Intermountain s internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

In response to this Item, the information set forth in Intermountain s Proxy Statement dated March 31, 2005 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 is incorporated herein by reference.

Information concerning Intermountain s Audit Committee financial expert is set forth under the captions Information with Respect to Nominees and Other Directors and Meetings and Committees of the Board of Directors in Intermountain s 2005 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 31, 2005 under the heading 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 Proxy Statement dated March 31, 2005 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 Proxy Statement dated March 31, 2005 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 Proxy Statement dated March 31, 2005 under the headings Ratification of Appointment of Independent Auditors , Report of Audit Committee , and Auditors is incorporated herein.

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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, 2004 and 2003

Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Comprehensive Income for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2004, 2003 and 2002.

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002.

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.

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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 22, 2005

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.

Signature	Title	Date
/s/ Curt Hecker Curt Hecker	President and Chief Executive Officer, Principal Executive Officer	March 22, 2005
/s/ John B. Parker John B. Parker	Chairman of the Board, Director	March 22, 2005
/s/ Douglas Wright Douglas Wright	Executive Vice President and Chief Financial Officer, Principal Financial Officer	March 22, 2005
/s/ Terry L. Merwin Terry L. Merwin	Secretary, Director	March 22, 2005
/s/ Charles L. Bauer Charles L. Bauer	Director	March 22, 2005
/s/ James T. Diehl James T. Diehl	Director	March 22, 2005
/s/ Ford Elsaesser Ford Elsaesser	Director	March 22, 2005
/s/ Ronald Jones Ronald Jones	Director	March 22, 2005

/s/ Maggie Y. Lyons Maggie Y. Lyons	Director	March 22, 2005
/s/ Jim Patrick Jim Patrick	Director	March 22, 2005

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Signature	Title	Date
/s/ Dennis Pence Dennis Pence	Director	March 22, 2005
/s/ Michael J. Romine Michael J. Romine	Director	March 22, 2005
/s/ Jerrold Smith Jerrold Smith	Executive Vice President and Director	March 22, 2005
/s/ Barbara Strickfaden Barbara Strickfaden	Director	March 22, 2005
/s/ Douglas P. Ward Douglas P. Ward	Director	