INTERMOUNTAIN COMMUNITY BANCORP
Form 10-K
March 20, 2006

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, 2005
	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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes o No þ

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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated file, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer on Rule 12b-2 of the Exchange Act.

Large Accelerated filer o Accelerated filer o Non Accelerated filer þ

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

As of June 30, 2005, 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 $72,264,010.

The number of shares outstanding of the registrant s Common Stock, no par value per share, as of March 10, 2006 was 6,596,428.

DOCUMENTS INCORPORATED BY REFERENCE

Specific portions of the registrant s Proxy Statement dated March 30, 2006 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), the State of Washington Department of Financial Institutions, the Oregon Division of Finance and Corporate Securities and by the Federal Deposit Insurance Corporation (FDIC), its primary federal regulator and the insurer of its deposits.

Since opening in 1981, the Bank has continued to grow by opening additional branch offices throughout Idaho. During 1999, the Bank opened its first branch under the name of Intermountain Community Bank, a division of Panhandle State Bank, in Payette, Idaho. 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 the time. Also, in 2003, the Company changed the names of the Coeur d Alene, Post Falls, and Rathdrum branches from Intermountain Community Bank to Panhandle State Bank, because the Panhandle State Bank name had more brand recognition in the northern part of the state. In November 2004, Intermountain acquired Snake River Bancorp, Inc. (Snake River) and its subsidiary bank, Magic Valley Bank, which consisted of three branches. The branches are located in south central Idaho in the cities of Twin Falls, Gooding and Jerome. In June 2005, the Company opened a branch in Spokane Valley, Washington. In August 2005, the Company closed its Jerome, Idaho branch and consolidated the branch operations into its Twin Falls branch.

The Bank s primary service area covers three distinct geographical regions. The north Idaho and eastern Washington region encompasses the three northernmost counties in Idaho, including Boundary County, Bonner County and Kootenai County and Spokane County in eastern Washington. The north Idaho region is heavily forested and contains numerous lakes. As such, the economies of these counties are primarily based on tourism, real estate development and natural resources, including logging, mining and agriculture. Both Kootenai and Bonner County have also experienced additional light industrial, high-tech and commercial development over the past ten years. The Spokane County economy is the most diverse in eastern

Washington. There is an emergence of new high tech industries, as well as an established base of mature businesses in manufacturing and service industries.

The second region served by the Bank encompasses three counties in southwestern Idaho (Canyon, Payette, and Washington) and one county in southeastern Oregon (Malheur). The economies of these counties are primarily based on agriculture and related or supporting businesses. A variety of crops are grown in the area, including beans, onions, corn, apples, peaches, cherries and sugar beets. Livestock, including cattle and pigs, are also raised. Because of its proximity to Boise, Canyon County has expanding residential and retail development, and a more diversified light manufacturing and commercial base.

The third region served by the Bank encompasses two counties in south central Idaho (Twin Falls and Gooding). The economies of these counties are primarily based on agriculture and related or supporting businesses. A variety of crops are grown in the area, including beans, peas, corn, hay, sugar beets and potatoes. Fish farms, dairies and beef cattle are also prevalent. Twin Falls County has experienced significant growth over the past 10 years and as a result, residential and commercial construction is a much larger driver of the local economy. The area is also experiencing growth in light manufacturing and retail development.

The Company s 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. Six of the branches are operated under the name Intermountain Community Bank, a division of Panhandle State Bank and two branches operate under the name Magic Valley Bank, a division of Panhandle State Bank. Twelve of the Company s branches are located throughout Idaho in the cities of Bonners Ferry, Caldwell, Coeur d Alene, Gooding, Nampa, Payette, Ponderay, Post Falls, Priest River, Rathdrum, Twin Falls and Weiser, one branch is located in Spokane Valley, Washington 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, 2005, the Company had total consolidated assets of $733.7 million.

Competition

Based on total asset size as of December 31, 2005, the Company continues to be the largest independent community bank headquartered in Idaho. The Company competes with a number of international banking groups, out-of-state banking companies, state-wide banking organizations, and several local community banks, as well as savings banks, savings and loans, 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 and eastern Washington, the delineated communities are Boundary, Bonner and Kootenai Counties in Idaho and Spokane County in Washington. These communities include the cities of Coeur d Alene, Rathdrum, Post Falls, Ponderay, Priest River, Sandpoint and Bonners Ferry, Idaho and Spokane, Washington. Primary competitors in the northern region include US Bank, Wells Fargo, Key Bank, Washington Trust Bank, Sterling Savings Bank and Bank of America, all large international or regional banks, and Idaho Independent Bank and Mountain West Bank, both community banks.

In southwestern and south central Idaho and eastern Oregon, the Bank has delineated Washington, Payette, Canyon, Malheur, Twin Falls and Gooding Counties, which include the cities of Caldwell, Nampa, Payette, Ontario, Weiser, Twin Falls and Gooding. Primary competitors in the southern region include international or regional banks, US Bank, Wells Fargo, Key Bank, Bank of America and Zions Bank, and community banks, 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.

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.

Residential 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 first mortgage loans are offered with up to 30-year maturities, while typical maturities for second mortgages (home improvement and home equity loans and lines) are as stated below under Consumer Loans. Lot acquisition and construction loans are also offered to consumers with typical terms up to 36 months (interest only loans are also available) and up to 12 months (with six months extension), respectively. Loans for purchase, construction, rehabilitation or repurchase of commercial and industrial properties are also available through the Bank, as are property development loans, with up to two-year terms typical for construction and development loans, and up to 10 years for term loans (generally with re-pricing after three 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.

Consumer Loans. The Bank offers a variety of consumer loans, including personal loans, motor vehicle loans, boat loans, recreational vehicle loans, home improvement loans, home equity loans, open-end credit lines, both secured and unsecured, and overdraft protection credit lines. The Bank s terms and underwriting on these loans are consistent with what is offered by competing community banks and credit unions. Loans for the purchase of new autos typically range up to 72 months. Loans for the purchase of smaller RV s, pleasure crafts and used vehicles range up to 60 months. Loans for the purchase of larger RV s and larger pleasure crafts, mobile homes, and home equity loans range up to 120 months (180 months if credit factors and value warrant). Unsecured loans are usually limited to two years, except for credit lines, which may be open-ended but are generally reviewed by the Bank 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.

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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. The bank also offers non-FDIC insured alternatives on a limited basis to customers, in the form of reverse repurchase agreements and sweep accounts.

Investment Services

The Bank provides 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), 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 credit cards 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 2005, the Company increased total gross loans by 33%, or $138.7 million, resulting in a favorable increase in earnings for the Company. Commercial loans contributed the highest percentage growth in 2005, increasing 39% over 2004.

Competition for loan business has been intense across most types of loans, with some non-bank and traditional bank competitors willing to lend at lower rates than were offered by the Company last year. During 2005, with a fluctuating interest rate environment, loan competition remained intense, as lenders continued to aggressively pursue new loan originations and refinancings. As interest rates increase, pressure is put on borrowers to pay more of their business income in interest to the Company. This can result in a higher rate of loan defaults. If loan interest rates continue to increase, 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 2004, the total loan portfolio increased 46%, with residential loans contributing the highest percentage growth, 60% over 2003. In November 2004, the Bank acquired Snake River Bancorp, Inc. and its subsidiary bank, Magic Valley Bank, which contributed $65.5 million in net loans receivable at the acquisition date. This contribution represented approximately one half of the overall loan portfolio growth during 2004.

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The following table contains information related to the Company s loan portfolio for the five-year period ended December 31, 2005 (dollars in thousands).

	December 31,				
	2005	2004	2003	2002	2001
Commercial loans	$ 425,005	$ 304,783	$ 215,396	$ 144,872	$ 110,850
Residential loans	107,554	94,170	58,728	36,832	34,628
Consumer loans	29,109	24,245	16,552	13,854	12,417
Municipal loans	2,856	2,598	1,751	2,679	2,263
Total loans	564,524	425,796	292,427	198,237	160,158
Allowance for loan losses	(8,517)	(6,902)	(5,118)	(3,259)	(2,574)
Deferred loan fees, net of direct origination costs	(971)	(234)	(53)	(204)	(488)
Loans receivable, net	$ 555,036	$ 418,660	$ 287,256	$ 194,774	$ 157,096
Weighted average rate	7.90%	6.81%	6.60%	6.94%	7.72%

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 2005, 2004, 2003, 2002 and 2001 on non-accrual loans was approximately $95,000, $55,000, $7,000, $104,000 and $66,000, respectively. A non-accrual loan may be restored to accrual status when principal and interest payments are brought current or when brought to 90 days or less delinquent and continuing payment of principal and interest is expected.

As of December 31, 2005, there were no identified loans, other than those represented in the following table, which were not in compliance with the stated terms of the loan or otherwise presented additional credit risk to the Company.

Information with respect to nonaccrual loans is as follows (dollars in thousands):

	December 31,				
	2005	2004	2003	2002	2001
Nonaccrual loans (approximately)	$ 807	$ 1,218	$ 174	$ 609	$ 1,041

Nonaccrual loans as a percentage of total loans		0.14%		0.29%		0.06%		0.31%		0.66%
Total allowance related to these loans	$	341	$	413	$	47	$	249	$	134
Interest income recorded on these loans	$	8	$	10	$	3	$	11	$	85

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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 and loan types. 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
(Dollars in thousands)

	December 31, 2005			
	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
Commercial loans	75.28%	$ 425,005	$ 6,210	$ 671
Residential loans	19.05%	107,554	1,827	10
Consumer loans	5.16%	29,109	450	126
Municipal loans	0.51%	2,856	30	
Totals	100.00%	$ 564,524	$ 8,517	$ 807

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

	December 31, 2003		
	Percent of Loans to	Gross	Non-Accrual

	Total Loans	Loans	Allowance	Loans
Commercial loans	73.66%	$ 215,396	$ 3,804	$ 121
Residential loans	20.08%	58,728	1,102	37
Consumer loans	5.66%	16,552	189	16
Municipal loans	0.60%	1,751	23	
Totals	100.00%	$ 292,427	$ 5,118	$ 174

	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 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 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 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.

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 year 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.

During 2005, the Company modified its risk grade allocation factors to better reflect varying loss experiences in different types of loans. As of December 31, 2005, the allocation factors range from 0.25% for cash equivalent secured loans to 100% of doubtful/loss (Risk Grade 7). Risk Grades 3 , 5 , 6 and 7 closely reflect the FDIC s c for Satisfactory, Special Mention, Substandard and Doubtful/ Loss , respectively. Risk Grade 4 is an internally designated Watch category. At December 31, 2005, the Company had $7.4 million in the Special Mention and $1.2 million in the Substandard loan categories.

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The bank s total allowance for loan losses was 1.51% and 1.62% of total loans at December 31, 2005 and December 31, 2004, respectively. The following table provides additional detail on the allowance.

Analysis of the Allowance for Loan Losses

	December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(Dollars in thousands)				
Balance Beginning December 31	$ (6,902)	$ (5,118)	$ (3,259)	$ (2,574)	$ (1,875)
Charge Offs					
Commercial Loans	307	535	785	740	421
Residential Loans	21	44	195	217	55
Consumer Loans	464	164	137	46	56
Municipal Loans					
Total Charge-offs	792	743	1,117	1,003	532
Recoveries					
Commercial Loans	(187)	(131)	(357)	(57)	(73)
Residential Loans	(19)	(23)	(35)	(24)	(10)
Consumer Loans	(68)	(40)	(5)		(15)
Municipal Loans					
Total Recoveries	(274)	(194)	(397)	(81)	(98)
Net charge offs	518	549	720	922	434
Provision for loan loss	(2,229)	(1,438)	(955)	(1,607)	(1,133)
Addition from acquisition		(1,108)	(1,624)		
Sale of loans	96	213			
Balance at end of period	$ (8,517)	$ (6,902)	$ (5,118)	$ (3,259)	$ (2,574)
Ratio of net charge-offs to loans outstanding	0.09%	0.13%	0.25%	0.47%	0.27%

The increase in consumer loan chargeoffs during 2005 was the result of overdraft losses. In general, overdraft losses have increased commensurate with overall growth in the Bank s total number of customer accounts.

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, 2005 and 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 a $1.6 million allowance for loan losses. Of the total $1.1 million in charge-offs during 2003, $0.2 million related to the Ontario Branch Portfolio.

The 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

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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 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 $1.3 million in 2005 and $2.7 million in 2004, along with large prepayments since the purchase of the portfolio in 2003. The balance of the real estate contract portfolio at December 31, 2005 was $8.7 million.

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, 2005

Loan Repricing	Fixed Rate	Variable Rate	Total Loans
		(Dollars in thousands)	
0-90 days	$ 29,949	$ 296,194	$ 326,143
91-365 days	39,998	14,875	54,873
1 year-5 years	102,182	55,778	157,960
5 years or more	25,193	355	25,548
Total	$ 197,322	$ 367,202	$ 564,524

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, 2005 the Bank s loan portfolio was concentrated, by loan type, as follows:

Commercial	75.28%
Residential	19.05%
Consumer	5.16%
Municipal	0.51%

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, 2005, agricultural loans and agricultural real estate loans represent approximately 13.6% and 2.8% of the total loan portfolio, respectively. The agricultural portfolio consists of loans secured by crops, real estate and livestock.

To mitigate credit risk, specific underwriting is applied to retain only borrowers that have proven track records in the agricultural industry. In addition, the Bank has hired senior lenders with significant experience in agricultural lending to administer these loans. Further mitigation is provided through frequent collateral

inspections, adherence to farm operating budgets, and annual or more frequent review of financial performance.

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 were limited to 350% of the Bank s capital, surplus and capital notes. During 2005, the Bank changed its process for monitoring its loan categories, including lot loans with residential construction, agricultural real estate in a separate category, loans against real estate contracts in a separate category and home equity and second mortgage loans as other real estate . Accordingly, residential construction and lot loans at December 31, 2005 represented 9.6% of the Bank s total loan portfolio, commercial construction and development loans 14.6%, commercial real estate loans 16.8% and other real estate loans 1.5%. Total real estate loans with maturities exceeding 2 years represented 208.3% of the Bank s capital, surplus and capital notes.

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 decreased 18% to $83.8 million at December 31, 2005 from $102.8 million at December 31, 2004. The carrying value of the held-to-maturity securities portfolio increased 25% to $6.7 million from $5.4 million at December 31, 2004. During 2005, the Company utilized funds from maturing investments and principal payments to fund its rapid loan growth. The U.S agency debentures and mortgage-backed securities 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 2005 and 2004 due to bonds acquired in the Snake River Bancorp/ Magic Valley Bank merger and a greater supply of attractive Idaho municipal bonds. The average duration of the available-for-sale and the held-to-maturity portfolios was approximately 2.4 years and 5.1 years, respectively on December 31, 2005, compared to 2.8 years and 1.7 years, respectively on December 31, 2004.

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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,	2005 Amount	Percent Change Prev. Yr.	2004 Amount	Percent Change Prev. Yr.	2003 Amount
		(Dollars in thousands)			
U.S. treasury securities and obligations of government agencies	$ 51,796	(14.09)%	$ 60,290	63.08%	$ 36,969
Mortgage-backed securities	30,777	(23.36)%	40,156	17.99%	34,032
Corporate bonds	969	(51.55)%	2,000	(64.29)%	5,601
State and municipal bonds	7,054	23.30%	5,721	71.49%	3,336
Total	$ 90,596	(16.24)%	$ 108,167	35.31%	$ 79,938
Available for Sale	83,847	(18.40)%	102,758	34.15%	76,602
Held to Maturity	6,749	24.77%	5,409	62.14%	3,336
Total	$ 90,596	(16.24)%	$ 108,167	35.31%	$ 79,938

Investments held as of December 31, 2005
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	$ 6,980	3.57%	$ 44,816	3.32%	$	%	$	%	$ 51,796	3.36%
Corporate bonds		%	969	3.25%		%		%	969	3.25%
Mortgage-backed securities	68	4.26%	20,368	3.45%	2,790	4.37%	7,551	4.20%	30,777	3.71%
State and municipal bonds (tax equivalent)	495	5.50%	3,786	2.95%	970	3.44%	1,803	3.82%	7,054	3.42%
Total	$ 7,543	3.67%	$ 69,939	3.34%	$ 3,760	4.13%	$ 9,354	4.13%	$ 90,596	3.48%

Deposits

Deposits represent approximately 89.3% of the Bank s liabilities at December 31, 2005. 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 2005, the Bank experienced increased competition for deposits, but successfully grew lower-cost transaction deposits, including demand and money market balances, at a relatively strong rate. Total deposits grew 19% in 2005 with non-interest bearing deposits growing 21% and interest-bearing deposits growing 19% over 2004 balances. NOW and money market accounts (personal, business and public) grew 26% to $216.0 million at December 31, 2005 from $171.5 million at December 31, 2004. Demand accounts grew 21% to $132.4 million at December 31, 2005 from $109.6 million at December 31, 2004. Certificate of deposit accounts grew $16.6 million, from $158.7 million at December 31, 2004 to $175.3 million at December 31, 2005, an overall increase of 10%.

The rise in short-term interest rates during 2005 continued to place additional pressure on banks to raise rates paid on deposits and to grow deposit balances. The Bank has responded by focusing on growing core customer relationships through the provision of excellent customer service, pursuing referrals from existing customers, competitively pricing its traditional deposit products and offering repurchase agreements and a commercial sweep product to its business customers.

The following table details repricing information for the Bank s time deposits with minimum balance of $100,000 at December 31, 2005 (in thousands):

Maturities		
Less than three months	$	24,043
Three to six months		11,937
Six to twelve months		24,958
Over twelve months		27,467
	$	88,405

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, 2005 there were no short-term borrowing balances outstanding and the Bank had unsecured credit lines of $30.0 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, 2005, the Bank had outstanding notes with the FHLB of $5.0 million and the ability to borrow an additional $10.2 million. In January 2006, the Company entered into an additional borrowing agreement with US Bank in the amount of $5.0 million. The borrowing agreement is a revolving line of credit with a variable rate of interest tied to LIBOR.

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 3.60%, 1.75% and 0.58% at December 31, 2005, 2004 and 2003, respectively. The average balances of securities sold subject to repurchase agreements were $31.6 million, $14.6 million and $13.4 million during the years ended December 31, 2005, 2004 and 2003, respectively. The maximum amount outstanding at any month end during these same periods was $47.6 million, $24.5 million and $17.2 million, respectively. The increase in the peak in 2005 reflected the issuance of repurchase agreements to one customer during the year, most of which had been returned to the customer by December 31, 2005. The weighted average interest rates during 2005, 2004 and 2003 were 2.86%, 1.09% and 1.24%, respectively. All repurchase agreements mature on a daily basis. At December 31, 2005, 2004 and 2003, the Company pledged as collateral, certain bonds and mortgaged-backed securities with aggregate amortized costs of $37.9 million, $20.3 million and $17.8 million, respectively. These investments and mortgage-backed securities had market values of $37.1 million, $20.2 million and $18.3 million at December 31, 2005, 2004 and 2003, 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

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rate at December 31, 2005 was 6.95%. Funds received from this borrowing were used to support planned expansion activities during 2004.

Employees

The Bank currently employs 332 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. The Company is prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Company nor its subsidiaries may condition an extension of credit to a customer on either (*i*) a requirement that the customer obtain additional services provided by us, or (*ii*) an agreement by the customer to refrain from obtaining other services from a competitor.

Support of Subsidiary Banks. Under Federal Reserve policy, the Company is expected to act as a source of financial and managerial strength to the Bank. This means that the Company is required to commit, as necessary, resources to support the Bank. Any capital loans a bank holding company makes to its subsidiary banks are subordinate to deposits and to certain other indebtedness of those subsidiary banks.

State Law Restrictions. As an Idaho corporation, the Company is subject to certain limitations and restrictions under applicable Idaho corporate law. For example, state law restrictions in Idaho include limitations and restrictions relating to indemnification of directors, distributions to shareholders, transactions involving directors, officers or interested shareholders, maintenance of books, records, and minutes, and observance of certain corporate formalities.

Federal and State Regulation of the Bank

General. The Bank is an Idaho commercial bank operating in Idaho and subject to supervision and regulation by the Idaho Department of Finance and the FDIC. In addition, its one branch in Oregon and one branch in Washington, are subject to supervision and regulation by, respectively, the Oregon Department of Consumer and Business Services and the Washington Department of Financial Institutions, as well as the FDIC. The Bank s deposits are insured by the FDIC. These agencies have the authority to prohibit banks from engaging in what they believe constitute unsafe or unsound banking practices.

Community Reinvestment. The Community Reinvestment Act 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 (*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.

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.

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

Deposit Insurance

The Bank s deposits are currently insured to a maximum of $100,000 per depositor (in some instances up to $100,000 per deposit account, depending on the ownership category of the account) 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. Under the Federal Deposit Insurance Reform Act of 2005, the Bank Insurance Fund will be merged with the Savings Association Insurance Fund into a new Deposit Insurance Fund, and the maximum deposit insurance amounts will be subject to inflation adjustments every five years, commencing April, 2010.

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 minus disallowed goodwill and other intangible assets. 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.

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 minus disallowed goodwill and other intangible assets and total capital minus disallowed goodwill and other intangible assets 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. The Sarbanes-Oxley Act of 2002 (the Act) addresses corporate and accounting fraud. The Act established a new accounting oversight board that enforces 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; 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, including ongoing compliance with Section 404, but do not expect that such compliance will have a material impact on our business.

Anti-terrorism Legislation

USA Patriot Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (Patriot Act) of 2001 is intended to combat terrorism. Among other things, the 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 antimoney-laundering compliance program, and (4) eliminates civil liability for persons who file suspicious activity reports. The Patriot 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 Patriot Act. We anticipate that we will incur additional expense as a result of the Patriot 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 the general compliance vary widely.

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 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
P.O. Box 967
Sandpoint, Idaho 83864 (208) 263-0505

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

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

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

The Company is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. These restrictions may affect the amount of dividends the Company may declare for distribution to its shareholders in the future.

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

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

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

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

Changes in market interest rates could adversely affect our earnings.

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

Interest rates are currently rising and if interest rates continue to rise, the amount of interest we pay on deposits and borrowings could increase more quickly than the amount of interest we receive on our loans, mortgage-related securities and investment securities. This could cause our profits to decrease. Rising interest rates would likely reduce the value of our investment securities and may decrease demand for loans and make it more difficult for borrowers to repay their loans. Increasing market interest rates may also depress property values, which could affect the value of collateral securing our loans.

An increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and write-offs, but also necessitate further increases to the allowances for loan losses. In addition, fluctuations in interest rates may result in disintermediation, which is the flow of funds away from depository institutions into direct investments that pay a higher rate of return and may affect the value of our investment securities and other interest-earning assets.

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

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

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

In particular, our competitors include major financial companies whose greater resources may provide them a marketplace advantage. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits and the range and quality of services provided. Because we have fewer financial and other resources than larger institutions with which we compete, we may be limited in our ability to attract customers. In addition, some of the current commercial banking customers may seek alternative banking sources as they develop needs for credit facilities larger than we can accommodate. If we are unable to attract and retain customers, we may be unable to continue our loan and deposit growth, and our results of operations and financial condition may otherwise be negatively impacted.

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

We have pursued and intend to continue to pursue an internal growth strategy, the success of which will depend primarily on generating an increasing level of loans and deposits at acceptable risk levels and terms without proportionate increases in non-interest expenses. There can be no assurance that we will be successful in implementing our internal growth strategy. Furthermore, the success of our growth strategy will depend on maintaining sufficient regulatory capital levels and on continued favorable economic conditions in our market areas.

There are risks associated with potential acquisitions.

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

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

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

The allowance for loan losses may be inadequate.

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

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

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

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We are expanding our lending activities in riskier areas.

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

Our stock price can be volatile.

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

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

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

Not applicable.

Item 2. ***PROPERTIES***

At December 31, 2005, 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 Branch(1)	200 W. Neider Avenue Coeur d Alene, ID 83814	5,500	May 2005	land lease own building
Rathdrum Branch	6878 Hwy 53 Rathdrum, ID 83858	3,410	March 2001	own
Post Falls Branch	3235 E. Mullan Avenue Post Falls, ID 83854	3,752	March 2003	own
(Bonner County)				
Ponderay Branch	300 Kootenai Cut-Off Road Ponderay, ID 83852	3,400	October 1996	own
Priest River Branch	301 E. Albeni Road Priest River, ID 83856	3,500	December 1996	own
Sandpoint Branch	231 N. Third Street Sandpoint, ID 83864	10,000	May 1981	own
(Boundary County)				
Bonners Ferry Branch	6750 Main Street Bonners Ferry, ID 83805	3,400	September 1993	own

Intermountain Community Bank Branches				
IDAHO				
(Canyon County)				
Caldwell Branch	506 10th Avenue Caldwell, ID 83605	6,480	March 2002	own
Nampa Branch	521 12th Avenue S. 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
OREGON				
(Malheur County)				
Ontario Branch	98 South Oregon St. Ontario, OR 97914	10,272	January 2003	lease

City and County	Address	Sq. Feet	Date Opened or Acquired	Occupancy Status (Own/Lease)
WASHINGTON				
(Spokane County)				
Spokane Branch	200 N. Mullan, Suite 124 Spokane, WA 99206	2,500	June 2005	lease
Magic Valley Bank Branches				
IDAHO				
(Twin Falls County)				
Twin Falls Branch	113 Main Ave W. Twin Falls, ID 83301	10,798	November 2004	lease
(Gooding County)				
Gooding Branch	746 Main St. Gooding, ID 83330	3,200	November 2004	own
ADMINISTRATIVE				
IDAHO				
(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	6,669	June 2002	lease
Sandpoint Finance	303 N. Third St. Sandpoint, ID 83864	1,260	September 2004	lease

(Kootenai County)				
Coeur d Alene Branch and Administrative Services(1)	200 W. Neider Avenue Coeur d Alene, ID 83814	17,600	May 2005	land lease own building
WASHINGTON				
(Spokane County)				
Spokane Home Loan Center	200 N. Mullan, Suite 222 Spokane, WA 99206	1,550	August 2005	lease

1) The Coeur d Alene branch is located in the 23,100 square foot branch and administration building located at 200 W. Neider Avenue in Coeur d Alene. The branch occupies approximately 5,500 square feet of this building.

2) In February 2006, the Company entered into lease agreements for new branches located in Kellogg and Fruitland, Idaho. It also owns land in Twin Falls, Idaho upon which it intends to build a branch in 2006.

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.

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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 2005.

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 10, 2006, there were 11 Pink Sheet/ 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)(2)

	2005		2004	
Quarter	**High**	**Low**	**High**	**Low**
1st	$ 18.50	$ 16.33	$ 16.00	$ 13.17
2nd	18.35	16.00	17.00	15.70
3rd	17.50	16.05	17.33	14.17
4th	17.75	16.50	18.33	15.00

(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.

(2) The share amounts include shares that have been purchased pursuant to the Company s stock purchase bonus program (the program), which provides certain officers of the Company with an opportunity to purchase shares of Intermountain common stock on the open market and subsequently receive reimbursement for those purchases. Each officer who participates in this program has entered into a written agreement with the Company that specifies, among other things, the maximum amount for which such officer may receive reimbursement (the award). If the officer makes stock purchases within the time frames specified pursuant to the written agreement, he or she will receive a bonus, paid in three or five annual installments, equal to the lesser of (i) the actual dollar amount of the shares purchased; or (ii) the amount of the award, provided that the officer is employed with the Company on the date that the written agreement specifies such bonus is payable. Such purchases could affect the volume and price of the Company s shares, as at certain times throughout the year, Company officers may be making significant share purchases in order to satisfy the requisites to receive bonuses pursuant to the program.

The approximate number of record holders of the Company s common stock as of March 10, 2006 was 1,775, representing 6,596,428 shares outstanding.

The Company historically has not paid cash dividends, nor does it expect to pay cash dividends in the near future. The Company is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. These restrictions may affect the amount of dividends the Company may declare for distribution to its shareholders in the future.

There have been no securities of the Company sold within the last three years that were not registered under the Securities Act of 1933, as amended. The Company did not make any stock repurchases during the fourth quarter of 2005.

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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, 2005:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column(a),(c)
Equity compensation plans approved by shareholders	560,914	$ 6.26	240,791
Equity compensation plans not approved by shareholders	94,028(1)	6.07(3)	78,000(2)
Total	654,942	$ 6.26	318,791

(1) Represents 78,000 shares available for issuance under the Company s 2003-2005 Long Term Incentive Plan (LTIP), and 16,028 shares subject to the Snake River Bancorp, Inc. stock options plans that were assumed by the Company pursuant to the acquisition of Magic Valley Bank. The LTIP was adopted pursuant to Rule 701 of the Securities Act of 1933, as amended, prior to Intermountain becoming a public reporting company and was not subject to any shareholder approval requirements at the time of adoption.

(2) Represents shares remaining available for future grant under the LTIP.

(3) Represents the weighted average exercise price of the outstanding options under the Snake River Bancorp, Inc. stock option plans.

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, (1)				
	2005(2)	2004(2)	2003(2)	2002	2001

STATEMENTS OF INCOME DATA					
Total interest income	$ 41,648	$ 25,355	$ 20,983	$ 16,787	$ 16,313
Total interest expense	(10,717)	(5,712)	(4,970)	(3,919)	(6,123)
Net interest income	30,931	19,643	16,013	12,868	10,190
Provision for loan losses	(2,229)	(1,438)	(955)	(1,607)	(1,134)
Net interest income after provision losses on loans	28,702	18,205	15,058	11,261	9,056
Total other income	9,620	7,197	5,985	4,232	2,628
Total other expense	(26,532)	(18,884)	(15,476)	(11,589)	(8,760)

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	For the Year Ended December 31, (1)				
	2005(2)	2004(2)	2003(2)	2002	2001
Income before income taxes	11,790	6,518	5,567	3,904	2,924
Income taxes	(4,308)	(2,172)	(1,906)	(1,314)	(960)
Net income	$ 7,482	$ 4,346	$ 3,661	$ 2,590	$ 1,964
Net income per share(3)					
Basic	$ 1.28	$ 0.88	$ 0.77	$ 0.55	$ 0.43
Diluted	$ 1.18	$ 0.80	$ 0.72	$ 0.53	$ 0.42
Weighted average common shares outstanding(3)					
Basic	5,849	4,951	4,735	4,669	4,584
Diluted	6,350	5,458	5,086	4,886	4,732
Cash dividends per share					

	December 31,				
	2005	2004(2)	2003(2)	2002	2001
BALANCE SHEET DATA					
Total assets	$ 733,682	$ 597,680	$ 409,760	$ 287,413	$ 236,756
Net loans	555,036	418,660	287,256	194,774	157,096
Deposits	597,519	500,923	344,866	243,583	192,542
Securities sold subject to repurchase agreements	37,799	20,901	17,156	15,970	13,081
Advances from Federal Home Loan Bank	5,000	5,000	5,000		
Other borrowings	16,527	16,527	8,279		
Shareholders equity	64,273	44,564	27,078	23,916	21,100

(1) Certain prior period amounts have been reclassified to conform to the current period s presentation.

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

(3) 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.

Years Ended December 31,

Key Financial Ratios	**2005**	**2004**	**2003**
Return on Average Assets	1.11%	0.91%	0.99%
Return on Average Equity	14.80%	13.71%	14.24%
Average Equity to Average Assets	7.53%	6.64%	6.80%

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

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

In line with these goals, the Company has made two key acquisitions in the last three 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 two 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. The acquisition added approximately $65.5 million of loans, approximately $6.8 million of investments and approximately $69.6 million of deposits to the Company. 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.

In June 2005, the Company entered into Washington State with the opening of the Spokane Valley, Washington branch. This branch allowed the Company to enter into the eastern Washington banking market and to also better serve its existing customer base. The Company offers full service banking and residential and commercial lending from its Spokane Valley branch.

In March 2006, the Company announced plans to open branches in Kellogg, Twin Falls and Fruitland, Idaho. These branches expand the market of the bank and will also allow the bank to better serve its existing customer base. The Kellogg branch will operate as Panhandle State Bank, the Twin Falls branch will operate as Magic Valley Bank, a division of Panhandle State Bank and the Fruitland branch will operate as Intermountain Community Bank, a division of Panhandle State Bank.

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 2005, the financial stability of the Company s customers appeared to improve over 2004, based on regional economic data and the Bank s own asset quality measurements. Total loans receivable in 2005 increased 33%, while our net loan charge-off rate decreased to 0.09% of total loans from 0.13% in 2004. Non-accrual loans decreased approximately $400,000 in 2005 to 0.14% of total loans. Loan delinquencies over

30-days at fiscal year end 2005 were 0.16%, down 0.41% from the 2004 level of 0.57%. This decrease was largely attributed to the strong regional economy during 2005 and sales of some real estate contracts acquired with the Orchard Bank purchase. During 2005 and 2004, the Bank sold approximately $1.3 million and $2.7 million of the Orchard Bank real estate contracts, respectively. These loans were 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 programs, implementation of new monitoring and control technology 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 relocated the Coeur d Alene branch and administrative offices to a combined administrative and branch office building located on Neider Avenue between Highway 95 and Government Way in Coeur d Alene, Idaho. This new facility serves as our primary Coeur d Alene office and accommodates the Home Loan Center, our centralized real estate mortgage processing department, various administrative support departments and our SBA Loan Production Center. The SBA center was initiated in 2003 to enhance the service, delivery and efficiency of the Small Business Administration lending process. The headquarters of the Company will continue to reside in Sandpoint. In February 2006, the Company announced plans to relocate headquarters within Sandpoint into a planned 90,000 square foot financial center office building with the Company occupying approximately 50,000 square feet for the branch and administrative offices. In March 2006, the Company announced plans to open full service branches in Kellogg, Twin Falls and Fruitland, Idaho. This will allow the Company to expand into new market areas and better service its existing customer base.

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 look for opportunities to acquire other community banks that believe in the strategy of community banking and desire to build on the Company s culture, employee capital, technology and operational efficiency.

The Company s growth in diluted earnings per share for 2005 increased 47% over 2004 while assets increased 23% over the same time period, resulting in another year of record income and asset growth. Asset growth was due to organic growth in virtually all existing branches.

For 2005, the Company realized net income of $7.5 million or $1.18 per share (diluted). This is a 47% increase in diluted earnings per share over the 2004 figure of $0.80 per share (diluted). Return on average equity (ROAE) and return on average assets (ROAA), common measures of bank performance, totaled 14.8% and 1.11%, respectively, compared to 13.7% and 0.91% in 2004. Strong earnings performance contributed to the increases in ROAA and ROAE for the year ended December 31, 2005.

In December 2005, the Company completed a $12.0 million common stock offering, issuing 705,882 common shares and adding $11.9 million to stockholders equity. 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. All per-share data computations are calculated after giving retroactive effect to stock dividends and the stock splits.

Total assets reached $733.7 million, a 23% increase from $597.7 million at December 31, 2004. Total loans experienced 33% growth to $555.0 million at December 31, 2005 from $418.7 million at the end of 2004. Total deposits grew from $500.9 million to $597.5 million during 2005, representing a 19% increase. Both

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loans receivable and deposit growth reflect strong organic growth in competitive markets. 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, 2005 was 5.01%, as compared to 4.50% for 2004 and 4.59% for 2003. Rising interest rates and increased loan production during 2005 have contributed to the increase in the Company s margin in 2005.

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

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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	$ 22,055	6.59%
Securities(2)	93,575	3,190	3.41%
Federal funds sold	8,686	110	1.27%
Total earning assets	$ 436,965	$ 25,355	5.80%
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		$ 19,643	
Net interest margin			4.50%

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	$ 18,346	6.89%
Securities(2)	74,753	2,576	3.45%
Federal funds sold	7,819	61	0.78%
Total earning assets	$ 348,988	$ 20,983	6.01%
Cash and cash equivalents	12,362		
Office property 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		$ 16,013	
Net interest margin			4.59%

(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.

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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 2005 versus 2004

	Volume	Rate	Volume/Rate	Total
		(In thousands)		
Loans receivable, net	$ 11,268	$ 3,028	$ 1,546	$ 15,842
Securities	513	(27)	(4)	482
Federal funds sold	(75)	136	(92)	(31)
Total interest income	11,706	3,137	1,450	16,293
Time deposits of $100,000 or more	944	174	102	1,220
Other interest-earning deposits	997	1,076	362	2,435
Borrowings	620	221	509	1,350
Total interest expense	2,561	1,471	973	5,005
Net interest income	$ 9,145	$ 1,666	$ 477	$ 11,288

Changes Due to Volume and Rate 2004 versus 2003

	Volume	Rate	Volume/Rate	Total
		(In thousands)		
Loans receivable, net	$ 4,702	$ (791)	$ (202)	$ 3,709
Securities	649	(28)	(7)	614
Federal funds sold	7	38	4	49
Total interest income	5,358	(781)	(205)	4,372
Time deposits of $100,000 or more	469	175	93	737
Other interest-bearing deposits	635	(835)	(159)	(359)
Borrowings	309	30	25	364
Total interest expense	1,413	(630)	(41)	742
Net interest income	$ 3,945	$ (151)	$ (164)	$ 3,630

Net Interest Income 2005 Compared to 2004

The Bank s net interest income increased to $30.9 million in 2005 from $19.6 million in 2004. The net interest income increase attributable to volume increases was a favorable $9.1 million over 2004 as interest earning assets increased by $180.1 million and interest costing liabilities increased by $150.1 million. The volume increase is partially due to the November 2004 addition of approximately $65.5 million in loans and $69.6 million in deposits due to the Snake River Bancorp, Inc. acquisition. During 2005, interest rates increased both on the interest earning assets and interest costing liabilities; however, rates increased more quickly on the asset side than the liabilities. These factors created a $1.7 million increase attributable to rate variances. These factors, offset by the change in the mix of interest bearing liabilities, created a $11.3 million increase in net interest income.

The yield on interest-earning assets increased 0.95% in 2005 versus 2004. The cost of interest-bearing liabilities increased 0.51%. The loan yield increase of 0.90% represented the largest combined impact to net yield. The cost of short term borrowings increased by 1.95% as the bank funded loan growth with short-term borrowings. This represented the most drastic rate change from 2004. The cost of other interest bearing deposits increased 0.42% as the Bank raised interest rates on certificate of deposits and money market accounts in a rising interest rate environment. The increase by 2.00% in the prime lending rate during 2005 directly affected the Bank s variable rate loan portfolio, which exceeded 64% of the portfolio at December 31, 2005, 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 0.03% and the yield on federal funds sold rose during 2005 by 1.56%, which is in line with the short-term investment market. The Bank was generally asset-sensitive in 2005, resulting in improved net interest income during the year, as its earning assets repriced more quickly and to a higher degree than its interest costing liabilities.

Net Interest Income 2004 Compared to 2003

The Bank s net interest income increased to $19.6 million in 2004 from $16.0 million in 2003. The net interest income increase attributable to volume increases was a favorable $3.9 million over 2003. However, interest-earning assets were subject to downward rate pressure during early 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 $151,000 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 net interest income by $3.6 million. Rates earned and paid on interest earning assets and liabilities faced upward pressure at 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.

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 2005, even with significant loan growth. This resulted in a decline in the allowance for loan losses as a percentage of total loans receivable from 1.62% in 2004 to 1.51% in 2005. The provision for loan losses totaled $2.2 million in 2005, compared to $1.4 million in 2004. The $791 thousand increase in the provision was primarily caused by significant growth in the size and changes in the mix of the loan portfolio. Net chargeoffs in 2005 totaled $518 thousand versus $549 thousand in 2004. At December 31, 2005, the total allowance for loan losses was $8.5 million compared to $6.9 million at the end of the prior year. With the rapid growth in the loan portfolio, management continues to enhance its credit quality efforts by recruiting individuals with strong credit experience, providing additional training for our lending officers and implementing a more formalized credit review process.

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Other Income

The following table details dollar amount and percentage changes of certain categories of other income for the three years ended December 31, 2005.

Other Income	2005 Amount	% of Total	Percent Change Prev. Yr	2004 Amount	% of Total	Percent Change Prev. Yr.	2003 Amount	% of Total
				(Dollars in thousands)				
Fees and service charges	$ 8,165	85%	34%	$ 6,081	84%	14%	$ 5,321	89%
BOLI income	300	3%	17%	257	4%	(6)%	273	4%
Net (loss) gain on sale of securities	(43)	0%	(188)%	49	1%	26%	39	1%
Other income	1,198	12%	48%	810	11%	130%	352	6%
Total	$ 9,620	100%	34%	$ 7,197	100%	20%	$ 5,985	100%

Loan fees and service charges on deposit accounts continue to be the Bank s primary sources of 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 over the past several years. Mortgage, commercial and commercial real estate loan volumes are expected to remain stable in 2006, with the relatively strong real estate and economic market in the region. 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. Increases in 2005 are partially due to the full year effect of the Snake River Bancorp, Inc., acquisition of three branches in November 2004. 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 continued to grow in 2005. Fees from these programs totaled $873,000 in 2005, a 66% increase over the prior year.

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, 2005.

Other Expense	2005 Amount	% of Total	Percent Change Prev. Yr.	2004 Amount	% of Total	Percent Change Prev. Yr.	2003 Amount	% of Total
				(Dollars in thousands)				
Salaries and employee benefits	$ 15,356	58%	45%	$ 10,566	56%	20%	$ 8,828	57%
Occupancy expense	3,927	15%	38%	2,852	15%	14%	2,492	16%
Advertising	767	3%	35%	570	3%	19%	480	3%
Fees and service charges	974	3%	(5)%	1,023	5%	15%	886	6%
	1,257	5%	45%	869	5%	8%	803	5%

Printing , postage and supplies								
Legal and accounting	1,153	4%	56%	739	4%	42%	520	3%
Other expense	3,098	12%	37%	2,265	12%	54%	1,467	10%
Total	$ 26,532	100%	41%	$ 18,884	100%	22%	$ 15,476	100%

Similar to 2004 and 2003, salaries and employee benefits continued to be the majority of non-interest expense in 2005. 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 157 at the beginning of 2003 to 332 at December 31, 2005. In May 2005, Intermountain completed its 23,100 square foot branch and administrative office building located in Coeur d Alene, Idaho. In June 2005, Intermountain opened a branch and home loan center in Spokane Valley, Washington. 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. The Company has also added additional loan and deposit personnel in existing offices. To support continued branch growth, most administrative departments have expanded staff during the past year. In addition, the bank has added administrative staff to fully comply with the new regulatory requirements related to SEC reporting and preparation for Section 404 internal control reporting and stricter regulations related to the USA Patriot Act and Bank Secrecy Act. As of December 31, 2005 and December 31, 2004, the Company s assets per full-time equivalent employee ratio were $2.21 million. 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 2005 and 2004. The expense increase was primarily caused by the full-year effect of operational costs of the branches acquired in November 2004, increased space needs for administrative staff growth, and the full year effect of significant new computer hardware and software additions during 2004. It is anticipated that this expense will increase again in 2006 as the company experiences the full year effect of the 2005 Coeur D Alene building additions, implements branch expansion plans into new markets, implements planned existing branch facility expansions and adds the trust and wealth management division.

Public relations and advertising expense totaled $767,000 for 2005, a 35% increase over the $570,000 expense in 2004. Continued new market development and the need to market in more geographic areas caused the increases from 2004 and 2003. Management expects some increases in this category in 2006 related to the Bank s growth, however, the Bank is improving the effectiveness of its marketing spending.

The slight decrease in fees and service charges during 2005 was due primarily to the Company increasing efficiencies and renegotiation of contracts to gain efficiencies of scale. 2005 also has the full-year effect of bringing more item processing in-house and reducing services provided by correspondent banks. We expect continued moderation in this area, as efficiencies allow us to reduce our vendor reliance even more. Printing, postage and supplies increased by 45% from 2004 to 2005 as the Company supported growth activities in number of employees, number of facilities and number of customers. It is expected that this expense will increase moderately as the Company continues its planned growth pattern in 2006.

Legal and accounting expense increased in 2005 as the Company continues its work on various regulatory compliance measures. During 2005, the Company also incurred additional legal expense to open a new branch in Spokane Valley, Washington. During 2004, the Company incurred the additional cost of public reporting by completing its registration with the Securities and Exchange Commission in June 2004. It is anticipated that legal and accounting expense will increase at a slower pace in 2006 as the Company continues its compliance with regulatory requirements including the Sarbanes-Oxley Act of 2002 and additional Community Reinvestment Act requirements.

Other expense also increased in 2005. Primary contributors include significant increases in training, travel and telecommunications costs. As part of its strategic plan, management has placed much more emphasis on customer service, operational and compliance training, resulting in cost increases in these areas. This is expected to continue in 2006 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. In 2004, the Bank incurred a number of one-time charges related to the termination of various vendor contracts as a result of systems upgrades.

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 continuing to leverage the significant investments made in both people and technology, and slowing the increases in salary expense relative to net interest and other income growth in future years.

Financial Position

Total assets increased by $136.0 million or 23% during 2005. This increase was driven completely by organic growth in the loans receivable portfolio. Loans receivable increased by $136.4 million or 33% compared to 2004. Continued strong loan demand and continued progress on relationship banking within the Bank created the significant increase in 2005.

Assets increased in 2004 by $187.9 million, or 46%. This increase was driven by organic growth of $100.0 million, or 25%, and acquisition growth of $87.9 million or 21%. 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 Bancorp. Strong loan demand and proactive business development efforts by the Bank s production officers created the significant increase in 2004.

Investments in securities decreased by 16% from 2004, totaling $90.6 million at December 31, 2005, compared to $108.2 million at December 31, 2004. Investments decreased to 12% of total assets compared to 18% for the previous year. During 2005, management used the proceeds from maturities and principal reductions to fund its growing loans receivable portfolio. 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.

Office properties and equipment increased $2.6 million or 20% at December 31, 2005 compared to December 31, 2004. The Company finished completion of the Coeur d Alene branch and administration building in May 2005. The completed cost of the Coeur d Alene building was approximately $3.4 million. 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 decreased to $12.4 million at December 31, 2005, from $12.6 million at December 31, 2004. The Company had goodwill and core deposit intangible assets of approximately $10.9 million related to the November 2004 Snake River acquisition, and goodwill and other intangible assets of approximately $1.8 million as a result of the January 2003 purchase of the Ontario branch of Household FSB. Goodwill and other intangible assets equaled 2% of total assets at December 31, 2005. The decrease in the balance of goodwill and other intangible assets relates to the amortization of the core deposit intangibles related to the Snake River acquisition and the Household FSB purchase.

To fund the asset growth, liabilities increased by $116.3 million, or 21% from 2004. Most of the increase was in traditional customer deposits, which grew $96.6 million or 19% from 2004 balances. Much of the increase in deposits was in NOW and money market accounts, which grew $44.6 million, or 26% from the previous year. Certificates of deposit also increased during the year, growing by $16.6 million, or 10% from 2004. 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, contributed to the increases in certificates of deposits. 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 expanding in areas with high deposit concentrations, and providing additional training, target marketing and technology support for our production staff, as well as expanded use of other funding alternatives.

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Deposits as of December 31, 2004 increased by $156.1 million over December 31, 2003, or 45%. 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. NOW and money market accounts increased by $57.2 million, or 50% from 2003. Certificates of deposit increased during 2004 by $50.4 million, or 47% from 2003.

Repurchase agreements increased $16.9 million, or 81% as the Bank utilized repurchase agreements to partially fund the strong loan growth that occurred during 2005. The Bank has continued to rely on repurchase agreements as a lower cost alternate source of funding to support its loan growth. During the third and fourth quarter of 2005, repurchase agreements were temporarily increased as one large customer made short-term investments in these instruments. Much of this money was returned to the customer by December 31, 2005.

Total shareholders equity increased by $19.7 million from $44.6 million at December 31, 2004 to $64.3 million at December 31, 2005. This increase is due to the retention of the Company s earnings and the completion of a $12.0 million common stock offering completed in December 2005. Total shares outstanding increased to 6.6 million shares, including an additional 705,882 shares issued in the common stock offering. Total shareholders equity grew by $17.5 million from $27.1 million at December 31, 2003 to $44.6 million at December 31, 2004. This increase was due to the retention of the Company s earnings and $13.0 million of additional equity issued as part of the Snake River acquisition in November 2004. 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, 2005 was 8.8% of total assets. The largest component of equity is common stock representing 68% of total equity. Retained earnings amounts to 35% and the remaining negative 3% is accumulated other comprehensive income and unearned compensation related to restricted stock.

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, 2005, the Company s Total capital to risk weighted assets was 11.99%, compared to 11.24% at December 31, 2004. At December 31, 2005, the Company s Tier I capital to risk weighted assets was 10.74%, compared to 9.78% at December 31, 2004. At December 31, 2005, the Company s Tier I capital to average assets was 9.61%, compared to 8.66% at December 31, 2004.The increase in these capital ratios at December 31, 2005 compared to December 31, 2004 is primarily a result of the $12.0 million common stock offering completed in December 2005 and the retention of net income during 2005. It is anticipated that in the future, the Company will build capital through the retention of earnings and other sources. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios of 10%, 6%, and 5%, respectively.

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 three 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. In December 2005, the Company successfully completed a $12.0 million common stock offering to its existing shareholders and customers. This resulted in the issuance of an additional 705,882 shares of common stock.

The following table sets forth the Company s actual capital ratios for 2005, 2004 and 2003 as well as the quantitative measures established by regulatory authorities.

	Actual		Capital Requirements		Well-Capitalized Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of December 31, 2005						
Total capital (to risk-weighted assets):						
The Company	$ 77,247	11.99%	$ 51,528	8%	$ 64,410	10%
Panhandle State Bank	76,056	11.81%	51,528	8%	64,410	10%
Tier I capital (to risk-weighted assets):						
The Company	69,190	10.74%	25,764	4%	38,646	6%
Panhandle State Bank	67,999	10.56%	25,764	4%	38,646	6%
Tier I capital (to average assets):						
The Company	69,190	9.61%	28,791	4%	35,989	5%
Panhandle State Bank	67,999	9.43%	28,833	4%	36,041	5%
As of December 31, 2004						
Total capital (to risk-weighted assets):						
The Company	$ 54,540	11.24%	$ 38,804	8%	$ 48,506	10%
Panhandle State Bank	50,243	10.36%	38,767	8%	48,459	10%
Tier I capital (to risk-weighted assets):						
The Company	47,460	9.78%	19,402	4%	29,103	6%
Panhandle State Bank	44,169	9.11%	19,384	4%	29,075	6%
Tier I capital (to average assets):						
The Company	47,460	8.66%	22,431	4%	27,406	5%
Panhandle State Bank	44,169	8.06%	21,927	4%	27,409	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, repurchase agreements and loan payments. At December 31, 2005, the available-for-sale investment portfolio had gross unrealized losses in the amount of $2.2 million, compared to $1.0 million at December 31, 2004. Management believes that all unrealized losses as of December 31, 2005 and 2004 to be market driven, with no permanent sector or issuer credit concerns or impairments. The Company has the ability to retain these securities until recovery of loss occurs. It is management s expectation to hold securities until recovery or consider market conditions for potential sale. 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, 2005 were 97.9% of total deposits, compared to 98.9% at December 31, 2004. During 2005, the Company experienced a $89.2 million or 18% increase in its core deposit base. Nearly $18.6 million of the growth in core deposits occurred in noninterest-bearing deposits. Deposit growth has lagged internal loan demand, resulting in some additional liquidity pressure for the Bank in 2005. The Bank utilized repurchase agreements as an additional source of funding to meet loan growth demands. In the future, management anticipates continued competition for deposits and increasing loan demand, creating continued liquidity pressure for the Bank.

Overnight-unsecured borrowing lines have been established at US Bank, Wells Fargo, and the Federal Home Loan Bank of Seattle and with the Federal Reserve Bank of San Francisco. At December 31, 2005, the Company had approximately $30.0 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. In January 2006, the Company entered into an additional borrowing agreement with US Bank in the amount of $5.0 million. The borrowing agreement is a revolving line of credit with a variable rate of interest tied to LIBOR.

The Company s loan portfolio also contains approximately $17.4 million in guaranteed government loans, which can be quickly sold on the secondary market. Given management s continued expectation of strong asset growth and a more difficult competitive environment for deposits in the short-term, management may utilize these alternative funding sources to a greater extent in the future. As such, management is improving its access to these sources and upgrading its asset and liability management process, expertise and technology to effectively control potential future risks in this area.

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, 2005.

	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)	$ 50,930	$ 1,268	$ 7,463	$ 2,264	$ 39,935
Short-term debt(2)	37,802	37,802			
Capital lease obligations					
Operating lease obligations(2)	5,771	581	1,019	752	3,419
Purchase obligations(3)	590	590			
Other long-term liabilities reflected on the registrant s balance sheet under					

GAAP(2)

Total	$ 95,093	$ 40,241	$ 8,482	$ 3,016	$ 43,354

(1) Includes interest payments related to long-term debt agreements.

(2) Excludes recurring accounts payable, accrued expenses and other liabilities and customer deposits, all of which are recorded on the registrant s balance sheet. See Note 5 of Notes to Consolidated Financial Statements . Excludes operating lease payments for new leases acquired in February 2006 for the new Kellogg and Fruitland branches. Total annual payments under the lease agreements will be $43,200 annually through 2007.

(3) The Company has entered into two purchase agreements for purchase of land in Sandpoint, Idaho for the development of the planned Financial and Technology center. The agreements are for land in the amount of $395,000 and $195,000 and will settle in February 2006. In February 2006, the Company purchased land in relation to the planned Sandpoint Financial and Technical Center, the purchase price was $1.2 million and is excluded from this schedule.

Inflation

Substantially all of the assets and liabilities of the Company are monetary. Therefore, inflation has a less significant impact on the Company than does fluctuation in market interest rates. Inflation can lead to accelerated growth in noninterest expenses and may be a contributor to interest rate changes, both of which 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.

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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, 2005. 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, 2005. 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, 2005. 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, 2005.

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 adjustment is recorded to reflect the net realizable value. 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 requires that the Company recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees over the period during which an employee is required to provide service in exchange for the award, which will often be the vesting period. SFAS 123R sets accounting requirements for the share-based compensation to employees, including employee-stock purchase plans. Awards to most non-employee directors will be accounted for as employee awards. SFAS 123R is effective for Intermountain as of January 1, 2006. The Company believes the adoption of SFAS 123R will not have a material impact to the Company and estimates the 2006 pre-tax gross compensation expense to be $189,000. Additionally, upon adoption of SFAS 123R, the Company will reclassify stock based compensation of approximately $1.3 million from liabilities to stockholders equity.

In November 2005, FASB Staff Position (FSP) No. 115-1 The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments, was released. This FSP addresses when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP is effective for reporting periods beginning after December 15, 2005, with early application permitted.

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 $62.1 million, or negative 25.7% 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. However, changes in rates offered on these types of deposits tend to lag changes in market interest rates, thereby potentially reducing or eliminating the impact of the negative gap position. 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 (NII) and the estimated economic value of the company to changes in interest rates. The simulation model, which has been compared to and validated with an independent third-party model, illustrates the estimated impact of changing interest rates on the interest income received and interest expense paid on all interest bearing assets and liabilities reflected on the Company s statement of financial condition. This interest sensitivity analysis is compared to policy limits for risk tolerance levels of net interest income exposure over a one-year time horizon, assuming a projection of balance sheet growth, given a 300 and 100 basis point movement in interest rates. Trends in out-of-tolerance conditions are then addressed by the committee, resulting in the implementation of strategic management intervention designed to bring interest rate risk within policy targets. A parallel shift in interest rates over a one-year period is assumed as a benchmark, with reasonable assumptions made regarding the timing and extent to which each interest-bearing asset and liability responds to the changes in market rates. The original assumptions were made based on industry averages and the company s own experience, and have been modified based on the company s continuing analysis of its actual versus expected performance, and after consultations with an outside expert. The following table represents the estimated sensitivity of the Company s net interest income as of December 31, 2005 and 2004 compared to the established policy limits. The model results for both years generally fell within the risk tolerance guidelines established by the committee, with the exception of the +300 basis point scenario in 2005 and the 300 basis point scenario in 2004. In these situations, the results exceeded guidelines by a small amount and the scenarios are not considered very likely to occur. The following table represents the estimated sensitivity of the Company s net interest income as of December 31, 2005 and 2004 compared to the established policy limits:

12 Month Cumulative % effect on NII	Policy Limit %	12-31-05	12-31-04
+100bp	+3.0 to -3.0	2.12	-2.91
+300bp	+8.0 to -8.0	8.73	0.92
-100bp	+3.0 to -3.0	-1.38	-2.14
-300bp	+8.0 to -8.0	-7.27	-9.54

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

Asset/ Liability Maturity Repricing Schedule
December 31, 2005

	Within Three Months	After Three Months but Within One Year	After One Year but Within Five Years	After Five Years	Total
	(Dollars in thousands)				
Loans receivable and held for sale	$ 328,466	$ 54,726	$ 154,227	$ 32,994	$ 570,413
Securities	2,592	7,569	75,128	5,307	90,596
Federal funds sold	11,080				11,080
Time certificates and interest cash	250				250
Total earning assets	$ 342,388	$ 62,295	$ 229,355	$ 38,301	$ 672,339
Allowance for loan losses	(5,670)	(607)	(1,908)	(332)	(8,517)
Total earning assets, net	336,718	61,688	227,447	37,969	663,822
Interest bearing demand deposits(1)	$ 216,034	$	$	$	$ 216,034
Savings deposits and IRA(1)	62,653	3,913	6,975	222	73,763
Time deposits	41,097	81,394	52,726	65	175,282
Total deposits	$ 319,784	$ 85,307	$ 59,701	$ 287	$ 465,079
Repurchase agreements	37,799				37,799
FHLB advances			5,000		5,000
Other borrowed funds	8,248		8,279		16,527
Total interest-bearing liabilities	$ 365,831	$ 85,307	$ 72,980	$ 287	$ 524,405
Net interest rate sensitivity gap	$ (29,113)	$ (23,619)	$ 154,467	$ 37,682	$ 139,417
Cumulative gap	$ (29,113)	$ (52,732)	$ 101,735	$ 139,417	

(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, 2005.

Expected Maturity Date at December 31, 2005

	2006	2007-08	2009-10	Thereafter	Total
			(Dollars in thousands)		
Interest-sensitive assets:					
Commercial loans	$ 191,760	$ 93,494	$ 48,160	$ 91,591	$ 425,005
Average interest rate	8.17%	8.06%	7.97%	7.27%	
Residential loans(1)	41,106	23,897	10,459	32,092	107,554
Average interest rate	7.94%	8.03%	8.15%	7.54%	
Consumer loans	4,760	11,913	8,852	3,584	29,109
Average interest rate	7.47%	8.25%	8.21%	7.52%	
Municipal loans	47	779	194	1,836	2,856
Average interest rate	4.06%	4.06%	5.21%	5.33%	
Securities	7,543	35,170	34,769	13,114	90,596
Average interest rate	3.03%	2.65%	3.80%	4.32%	
Federal funds sold	11,080				11,080
Average interest rate	4.00%	0.00%	0.00%	0.00%	
Certificates and interest bearing cash	250				250
Average interest rate	3.90%	0.00%	0.00%	0.00%	
Total interest-sensitive assets	$ 256,546	$ 165,253	$ 102,434	$ 142,217	$ 666,450
Deposits:					
Savings deposits and IRA	$ 66,566	$ 4,069	$ 2,906	$ 222	$ 73,763
Average interest rate	0.80%	3.54%	4.01%	5.73%	
Money market and NOW	216,034				216,034
Average interest rate	1.50%	0.00%	0.00%	0.00%	
Time certificates	122,491	44,015	8,711	65	175,282
Average interest rate	3.26%	3.82%	4.15%	2.02%	
Repurchase agreements	37,799				37,799
Average interest rate	3.60%	0.00%	0.00%	0.00%	
Other borrowed funds		5,000		16,527	21,527
Average interest rate	0.00%	2.71%	0.00%	6.81%	
Total interest-sensitive liabilities	$ 442,890	$ 53,084	$ 11,617	$ 16,814	$ 524,405

(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-36 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.

Changes in Internal Control over Financial Reporting

There are no changes in Intermountain s internal control over financial reporting that occurred during the fiscal year 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 30, 2006 under the headings Information with Respect to Nominees and Other Directors, Meetings and Committees of the Board of Directors, Executive Compensation, and Security Ownership of Certain Beneficial Owners and Management and Compliance with Section 16(a) filing requirements are incorporated herein by reference.

Information concerning Intermountain s Audit Committee financial expert is set forth under the caption Meetings and Committees of the Board of Directors in Intermountain s 2006 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 30, 2006 under the heading Executive Compensation is incorporated herein.

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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 30, 2006 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 30, 2006 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 30, 2006 under the headings Ratification of Appointment of Independent Auditors and Independent Registered Public Accounting Firm is incorporated herein.

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, 2005 and 2004

Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Comprehensive Income for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

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 14, 2006

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, Director	March 14, 2006
/s/ John B. Parker John B. Parker	Chairman of the Board, Director	March 14, 2006
/s/ Douglas Wright Douglas Wright	Executive Vice President and Chief Financial Officer, Principal Financial Officer	March 14, 2006
/s/ Terry L. Merwin Terry L. Merwin	Secretary, Director	March 14, 2006
/s/ Charles L. Bauer Charles L. Bauer	Director	March 14, 2006
/s/ James T. Diehl James T. Diehl	Director	March 14, 2006
/s/ Ford Elsaesser Ford Elsaesser	Director	March 14, 2006
/s/ Ronald Jones	Director	March 14, 2006

Ronald Jones		
/s/ Maggie Y. Lyons	Director	March 14, 2006
Maggie Y. Lyons		

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Signature	Title	Date
/s/ Jim Patrick Jim Patrick	Director	March 14, 2006
/s/ Michael J. Romine Michael J. Romine	Director	March 14, 2006
/s/ Jerrold Smith Jerrold Smith	Executive Vice President and Director	March 14, 2006
/s/ Barbara Strickfaden Barbara Strickfaden	Director	March 14, 2006
/s/ Douglas P. Ward Douglas P. Ward	Director	March 14, 2006

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation(1)
3.2	Amended and Restated Bylaws(2)
4.1	Form of Stock Certificate(3)
10.1	Second Amended and Restated 1999 Employee Stock Option and Restricted Stock Plan(3)
10.2	1988 Nonqualified Stock Option Plan, as amended(3)
10.3	Form of Employee Option Agreement(3)
10.4	Form of Restricted Stock Purchase Agreement(3)
10.5	1999 Director Stock Option Plan(1)
10.6	Restricted Stock Purchase Agreement(1)
10.7	Form of Nonqualified Stock Option Agreement(3)
10.8	2003 2005 Long-Term Incentive Plan, as amended(4)
10.9	2004 Executive Incentive Plan(3)
10.10	Stock Purchase Agreement for Douglas Wright dated January 6, 2003(3)
10.11	Stock Purchase Agreement for Jerrold Smith dated January 6, 2003(3)
10.12	Stock Purchase Agreement for John Nagel dated February 12, 2003(3)
10.13	Form of Stock Purchase Bonus Agreement(3)
10.14	Employment Agreement with Curt Hecker dated December 17, 2003, as amended March 24, 2004, and March 4, 2005(4)
10.15	Curt Hecker Tax Payment Bonus Plan dated December 1, 2000(3)
10.16	Form of Curt Hecker Salary Continuation and Split Dollar Agreement dated January 1, 2002(3)
10.17	Employment Agreement with Jerry Smith dated December 17, 2003, as amended March 24, 2004, and March 4, 2005(3)
10.18	Form of Jerry Smith Salary Continuation and Split Dollar Agreement dated January 1, 2002(3)

10.19	Executive Severance Agreement with Douglas Wright dated December 17, 2003, as amended March 4, 2005(4)
10.20	Executive Severance Agreement with John Nagel dated December 17, 2003, as amended March 24, 2004, and March 4, 2005(4)
10.21	Employment Agreement between Panhandle State Bank and Pamela Rasmussen, amended and restated as of November 9, 2004(5)
21	Subsidiaries of the Registrant
	(1) Panhandle State Bank, an Idaho state-chartered bank
	(2) Intermountain Statutory Trust I, a Connecticut statutory trust
	(3) Intermountain Statutory Trust II, a Delaware statutory trust
23	Consent of BDO Seidman, LLP
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

(1) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005

(2) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed September 8, 2004

(3) Incorporated by reference to the Registrant s Form 10, as amended on July 1, 2004

(4) Incorporated by reference to the Registrant s Annual Report on Form 10-K for the fiscal year end December 31, 2004

(5) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Intermountain Community Bancorp
Sandpoint, Idaho

We have audited the accompanying consolidated balance sheets of Intermountain Community Bancorp and Subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Intermountain Community Bancorp and Subsidiary as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

Spokane, Washington
February 17, 2006

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INTERMOUNTAIN COMMUNITY BANCORP
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2005	2004
	(Dollars in thousands, except per share data)	
ASSETS		
Cash and cash equivalents:		
Interest bearing	$ 250	$ 104
Non-interest bearing and vault	23,625	14,098
Restricted	774	1,634
Federal funds sold	11,080	8,330
Interest bearing certificates of deposit		100
Available-for-sale securities, at fair value	83,847	102,758
Held-to-maturity securities, at amortized cost	6,749	5,409
Federal Home Loan Bank of Seattle stock, at cost	1,774	1,210
Loans held for sale	5,889	5,686
Loans receivable, net	555,036	418,660
Accrued interest receivable	4,992	3,722
Office properties and equipment, net	15,545	12,941
Bank-owned life insurance	7,095	6,795
Goodwill	11,399	11,399
Other intangibles	1,051	1,238
Prepaid expenses and other assets	4,576	3,596
Total assets	$ 733,682	$ 597,680
LIABILITIES		
Deposits	$ 597,519	$ 500,923
Securities sold subject to repurchase agreements	37,799	20,901
Advances from Federal Home Loan Bank	5,000	5,000
Cashier checks issued and payable	6,104	5,478
Accrued interest payable	1,074	753
Other borrowings	16,527	16,527
Accrued expenses and other liabilities	5,386	3,534
Total liabilities	669,409	553,116
Commitments and contingent liabilities (Notes 14 and 15)		
STOCKHOLDERS EQUITY		
Common stock 24,000,000 and 7,084,000 shares authorized; 6,598,810 and 3,784,180 shares issued and 6,577,290 and 3,784,180 shares outstanding	43,671	30,314
Unearned compensation	(301)	

Accumulated other comprehensive income (loss), net of tax		(1,337)		(509)
Retained earnings		22,240		14,759
Total stockholders equity		64,273		44,564
Total liabilities and stockholders equity	$	733,682	$	597,680

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

INTERMOUNTAIN COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2005	**2004**	**2003**
	(Dollars in thousands, except per share amounts)		
Interest income:			
Loans	$ 37,897	$ 22,055	$ 18,346
Investments	3,751	3,300	2,637
Total interest income	41,648	25,355	20,983
Interest expense:			
Deposits	8,250	4,595	4,217
Other borrowings	1,177	953	576
Short-term borrowings	1,290	164	177
Total interest expense	10,717	5,712	4,970
Net interest income	30,931	19,643	16,013
Provision for losses on loans	(2,229)	(1,438)	(955)
Net interest income after provision for losses on loans	28,702	18,205	15,058
Other income:			
Fees and service charges	8,165	6,081	5,321
Bank owned life insurance	300	257	273
Net gain (loss) on sale of securities	(43)	49	39
Other income	1,198	810	352
Total other income	9,620	7,197	5,985
Operating expenses:			
Salaries and employee benefits	15,356	10,566	8,828
Occupancy expense	3,927	2,852	2,492
Advertising	767	570	480
Fees and service charges	974	1,023	886
Printing, postage and supplies	1,257	869	803
Legal and accounting	1,153	739	520
Other expense	3,098	2,265	1,467
Total operating expenses	26,532	18,884	15,476
Income before income taxes	11,790	6,518	5,567
Income tax provision	4,308	2,172	1,906

Net income	$	7,482	$	4,346	$	3,661
Earnings per share basic	$	1.28	$	0.88	$	0.77
Earnings per share diluted	$	1.18	$	0.80	$	0.72
Weighted average shares outstanding basic		5,849,617		4,950,866		4,735,269
Weighted average shares outstanding diluted		6,350,259		5,457,713		5,085,905

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

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INTERMOUNTAIN COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2005	**2004**	**2003**
	(Dollars in thousands)		
Net income	$ 7,482	$ 4,346	$ 3,661
Other comprehensive income (loss):			
Change in unrealized losses on investments, net of reclassification adjustments	(1,362)	(1,290)	(831)
Less deferred income tax benefit	534	506	326
Net other comprehensive loss	(828)	(784)	(505)
Comprehensive income	$ 6,654	$ 3,562	$ 3,156

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

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INTERMOUNTAIN COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
Years Ended December 31, 2005, 2004, and 2003

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total-Stockholders Equity
	Shares	Amount				
	(Dollars in thousands, except per share data)					
Balance, January 1, 2003	1,429,899	$ 3,575	$ 8,920	$ 780	$ 10,641	$ 23,916
Net income					3,661	3,661
Common stock issued as compensation	7,732	19	155			174
Shares issued upon exercise of stock options	19,177	37	170			207
Net unrealized loss on investments				(505)		(505)
Repurchase and cancellation of treasury stock	(15,360)	(39)			(362)	(401)
Common stock dividend (10%)	143,431	358	3,169		(3,527)	
Fractional share redemption	(146)		(3)			(3)
Tax benefit associated with stock options			29			29
Recapitalization	1,580,240	12,440	(12,440)			
Balance, December 31, 2003	3,164,973	$ 16,390	$	$ 275	$ 10,413	$ 27,078

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

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INTERMOUNTAIN COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
Years Ended December 31, 2005, 2004, and 2003

Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive	Retained	Total Stockholders
Shares	Amount				