

INTERMOUNTAIN COMMUNITY BANCORP

Form DEF 14A

March 24, 2008

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. _____)

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Common Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

INTERMOUNTAIN COMMUNITY BANCORP.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
- Fee computed on table below per Exchange Act Rules 12a-6(i)(1) and 0-11
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**Intermountain Community Bancorp
231 North Third Avenue
Sandpoint, Idaho 83864**

March 24, 2008

To the Shareholders of Intermountain Community Bancorp:

We cordially invite you to attend the 2008 Annual Shareholders Meeting of Intermountain Community Bancorp to be held on Wednesday, April 23, 2008 at 10 a.m. at the Sandpoint Center, located at 414 Church Street, Sandpoint, Idaho.

Your vote is important. Whether or not you plan to attend the annual meeting, we hope that you will vote as soon as possible. We encourage you to promptly complete and return the enclosed proxy card; if you attend the meeting in person, you may withdraw your proxy and vote your shares.

Further information regarding voting rights and the business to be transacted at the annual meeting is included in the accompanying Proxy Statement. Your continued interest in and support of Intermountain Community Bancorp is truly appreciated.

Sincerely,

/s/ Curt Hecker

Curt Hecker

President and Chief Executive Officer

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INTERMOUNTAIN COMMUNITY BANCORP

231 North Third Avenue

Sandpoint, Idaho 83864

(208) 263-0505

Notice of Annual Meeting of Shareholders

TIME	10:00 a.m. on Wednesday, April 23, 2008
PLACE	Sandpoint Center, 414 Church Street, Sandpoint, Idaho
ITEMS OF BUSINESS	(1) To elect four directors to a three-year term. (2) To ratify the appointment of BDO Seidman, LLP as the independent registered public accounting firm for Intermountain Community Bancorp for 2008. (3) To vote on a shareholder proposal regarding annual election of all directors. (4) To act upon such other matters as may properly come before the meeting or any adjournments or postponements thereof.
RECORD DATE	You are entitled to vote at the annual meeting and at any adjournments or postponements thereof if you were a shareholder at the close of business on February 27, 2008.
VOTING BY PROXY	Please submit your proxy card as soon as possible so that your shares can be voted at the annual meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions on your enclosed proxy card. By Order of the Board

/s/ Dale Schuman
Dale Schuman
Corporate Secretary

/s/ Curt Hecker
Curt Hecker
President and Chief Executive Officer

*This proxy statement and the accompanying proxy card are being distributed on or about
March 24, 2008*

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**PROXY STATEMENT
For Annual Meeting of Shareholders
to be held on April 23, 2008
INFORMATION ABOUT THE MEETING**

General

Meeting Information. This Proxy Statement and the accompanying Proxy are being sent to shareholders on or about March 24, 2008, for use in connection with the Annual Meeting of Shareholders of Intermountain Community Bancorp (Intermountain or the Company) to be held on Wednesday, April 23, 2008.

Solicitation of Proxies. The Board of Directors is soliciting shareholder proxies, and we will pay the associated costs. Solicitation may be made by our directors, officers and by employees of our subsidiary bank, Panhandle State Bank. In addition, we may engage an outside proxy solicitation firm to render proxy solicitation services. If we do, we will pay a fee for such services. Solicitation may be made through the mail, or by telephone, facsimile, or personal interview. We also may reimburse brokerage firms, custodians and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners.

Record Date. If you were a shareholder on February 27, 2008, you are entitled to vote at the annual meeting. There were approximately 8,332,130 shares of common stock issued and outstanding on the Record Date.

Quorum. The quorum requirement for holding the annual meeting and transacting business is a majority of the shares entitled to be voted. The shares may be present in person or represented by proxy at the annual meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

Business of the Meeting

The matters that are being presented for consideration by our shareholders at the annual meeting are the (i) election of directors; (ii) ratification of our independent public accountants; and (iii) a shareholder proposal.

Voting Requirement to Approve Matters Presented

Election of Directors. The four nominees for election as directors at the annual meeting with three-year terms to expire in 2011 who receive the highest number of affirmative votes will be elected. Shareholders are not permitted to cumulate their votes for the election of directors. Votes may be *cast for* or *withheld from* each nominee. Votes that are withheld and broker non-votes will have no effect on the outcome of the election.

Ratification of Accountants. The proposal to ratify Intermountain's independent registered public accounting firm requires the affirmative vote FOR the proposal by holders of a majority of the shares present in person or by proxy and entitled to vote on the proposal. You may vote *for*, *against* or *abstain* from the ratification of the independent public accountants. Abstentions and broker non-votes will have no effect on the outcome of the votes.

Shareholder Proposal. To be approved, this item must receive the affirmative vote FOR the proposal by holders of a majority of shares present in person or by proxy and entitled to vote on the proposal. You may vote *for*, *against* or *abstain* from the shareholder proposal. Abstentions and broker nonvotes will have no effect on the outcome of the votes.

Voting and Revocation of Proxies. Shares represented by properly executed proxies that are received in time and not revoked will be voted in accordance with the instructions indicated on the proxies. If no instructions are indicated, the persons named in the proxy will vote the shares represented by the proxy **FOR** the director nominees listed in this Proxy Statement, **FOR** the ratification of the independent registered public accounting firm and **AGAINST** the shareholder proposal. Any proxy given by a shareholder may be revoked before its exercise by (1) giving notice to us in writing, (2) delivering to us a subsequently dated proxy, or (3) notifying us at the annual meeting before the shareholder vote is taken. Shareholders of record are entitled to one vote per share on the proposals.

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Voting of Proxies by Shareholders of Record and by Beneficial Owners. Approximately 53% of Intermountain shareholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some differences between shares held of record and those owned beneficially.

Shareholders of Record. If your shares are registered directly in your name with Intermountain's transfer agent, American Stock Transfer and Trust, you are considered, with respect to those shares, the shareholder of record, and these proxy materials are being sent to you by Intermountain through American Stock Transfer and Trust. As the shareholder of record, you have the right to grant your voting proxy directly to Intermountain or to vote in person at the annual meeting. Intermountain has enclosed a proxy card for you to use. For instructions on voting by telephone, please refer to your proxy card.

Beneficial Owner. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you have the right to direct your broker on how to vote. Your broker or nominee has enclosed a voting instruction card for you to use in directing your broker or nominee as to how to vote your shares.

Brokers cannot vote on behalf of beneficial owners on non-routine proposals, such as the shareholder proposal. A broker non-vote occurs when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (1) the proposal is not routine and the broker therefore lacks discretionary authority to vote the shares, and (2) the beneficial owner does not submit voting instructions to the broker.

Voting in Person at the Annual Meeting

Shareholders of Record. Shares held directly in your name as the shareholder of record may be voted in person at the annual meeting. If you choose to vote your shares in person at the annual meeting, please bring the enclosed proxy card or proof of identification. Even if you plan to attend the annual meeting, we recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the annual meeting.

Beneficial Owner. Shares held in street name may be voted in person by you only if you bring an account statement or letter from the nominee indicating that you were the beneficial owner of the shares on the record date.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

General

Our Articles of Incorporation and Bylaws allow the Board to set the number of directors on the Board within a range of five to fifteen. The Articles also authorize the Board to fill vacancies that occur on the Board, including vacancies that are a result of increasing the number of directors. Effective December 31, 2007, Terry L. Merwin retired from the Board. In addition, Douglas P. Ward, whose term expires at the 2008 annual meeting, advised the Board that he would be retiring from the Board and would not stand for re-election. Accordingly, the Board has set the number of directors at eleven. Information regarding the director's backgrounds and qualifications is set forth below under each of their biographical summaries.

Directors are elected for terms of three years or until their successors are elected and qualified. Our Articles of Incorporation provide for staggered terms, with approximately one-third of the directors elected each year. Our Articles of Incorporation require that our classes of directors be of as near-equal size as possible.

Our Nominating/Corporate Governance Committee has recommended, and the Board has nominated, Charles L. Bauer, Maggie Y. Lyons, Ronald Jones and Barbara Strickfaden for election as directors for three-year terms to expire in the year 2011. If any of the nominees should refuse or become unable to serve, your proxy will be voted for the person the Board designates to replace that nominee. We are not aware of any nominee who will be unable to or refuses to serve as a director.

Table of Contents**Vote Required**

The four nominees for election as directors at the annual meeting with three-year terms to expire in 2011 who receive the highest number of affirmative votes will be elected.

The Board of Directors unanimously recommends a vote **FOR** each of the nominees to the Board.

**INFORMATION WITH RESPECT TO NOMINEES
AND OTHER DIRECTORS**

The following tables set forth certain information with respect to the director nominees and the other continuing directors.

Director Nominees

Name	Age as of 2/15/08	Primary Occupation
<i>Terms To Expire 2011</i>		
Charles L. Bauer	73	Retired; Former President of Panhandle State Bank
Maggie Y. Lyons	50	Plan Administrator and Trustee for Metropolitan Creditors Trusts
Ronald Jones	52	Chief Financial Officer of Ecolotree, Inc; Farm Owner/Operator
Barbara Strickfaden	68	Retired; Former President and CEO of the Idaho Bankers Association

Continuing Directors

Name	Age as of 2/15/08	Primary Occupation
<i>Terms Expiring 2009</i>		
Ford Elsaesser	56	Attorney Firm of Elsaesser, Jarzabek, Anderson, Marks, Elliott and McHugh
Curt Hecker	47	President & CEO of Intermountain; CEO of Panhandle State Bank
Michael J. Romine	67	Retired; Former Vice President & CFO of Inland Northwest Distributing, Inc.
Jerry Smith	51	President of Panhandle State Bank; Executive Vice President of Intermountain
<i>Terms Expiring 2010</i>		
James T. Diehl	53	Attorney Firm of J.T. Diehl
John B. Parker	74	Retired Auto Dealer
Jim Patrick	62	Farm Owner/Operator; Idaho State Legislator
	3	

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Background of Nominees and Continuing Directors

The business experience of each of the directors for the past five years is described below. Directors of Intermountain also serve as directors of Panhandle State Bank. Eight of the directors (Messrs. Bauer, Diehl, Elsaesser, Hecker, Parker and Romine) have been directors of Intermountain since the Company's inception in 1997.

Director Nominees

Charles L. Bauer has been a director of Intermountain since 1997 and of Panhandle State Bank since 1985. Mr. Bauer served as President of Panhandle State Bank from 1985 to his retirement in 1996.

Maggie Y. Lyons has been a director of Intermountain and Panhandle State Bank since 2001. Ms. Lyons is currently the sole officer and director of Metropolitan Mortgage and Securities, Inc. and Summit Securities, Inc., and Plan Administrator and Trustee of Metropolitan and Summit Creditors' Trusts. From July 2004 until February 2006, Ms. Lyons served as the Chief Financial Officer and acting Chief Executive Officer for Metropolitan Mortgage and Securities, and President and Principal Financial Officer of Summit Securities, both located in Spokane, Washington and both of which are in Chapter 11 proceedings. Ms. Lyons was appointed to these positions in July 2004 by the Eastern District of Washington Bankruptcy Court. Ms. Lyons is a Certified Public Accountant and Microsoft Certified Systems Engineer and provided business consulting services prior to working on the Metropolitan and Summit bankruptcy cases.

Ronald Jones was appointed to the Intermountain Board in November 2004, following Intermountain's merger with Snake River Bancorp, Inc./Magic Valley Bank. Mr. Jones served as Chairman of Magic Valley Bank from its opening in 1997 until April 2004. From 2002 until the merger with Intermountain, Mr. Jones served as corporate secretary of Snake River Bancorp, Inc. Mr. Jones has farmed south of Twin Falls, Idaho, since 1978. Since 2002, he has been Chief Financial Officer of Ecolotree Inc., a privately held Iowa engineering company. Ecolotree uses trees in patented processes to remediate environmental contamination and to cap landfills.

Barbara Strickfaden joined the boards of Intermountain and Panhandle State Bank in February 2004. Mrs. Strickfaden retired in January 2004 after serving as President and CEO of the Idaho Bankers Association since 1992. In 1998/1999 she chaired the State Associations Division of the American Bankers Association and served on the Board of Directors of the American Bankers Association.

Continuing Directors

James T. Diehl has served as Vice Chairman of the Board of Intermountain since its formation in 1997. Mr. Diehl has been a director of Panhandle State Bank since 1990 and has served as Vice Chairman of the Board of Panhandle State Bank since 2001. He is an attorney and has been the sole proprietor of the law firm of J. T. Diehl since 1987.

Ford Elsaesser has been a director of Intermountain since 1997 and of Panhandle State Bank since 1992. Mr. Elsaesser is an attorney and has been with the law firm of Elsaesser, Jarzabek, Anderson, Marks, Elliott and McHugh since 1980. From 1977 to 1980, Mr. Elsaesser was with the law firm of Cooke & Lamanna.

Curt Hecker has been a director and Intermountain's President and Chief Executive Officer since its inception. Mr. Hecker was hired in 1995 as an Executive Vice President of Panhandle State Bank. He has served as Chief Executive Officer and director of Panhandle State Bank since 1996. From 1996 until 2001, Mr. Hecker also served as Panhandle State Bank's President. Mr. Hecker also serves as a member of the Board of Directors of Coldwater Creek, Inc.

John B. Parker has served as Chairman of the Board of Intermountain since its formation in 1997, and has been a director of Panhandle State Bank since 1980 and Chairman of the Board of Panhandle State Bank since 1995. Mr. Parker began his career as an auto dealer in Sandpoint in 1957, and retired in June 1999 from Taylor-Parker Motor Company as general manager.

Jim Patrick was appointed to the Intermountain Board in November 2004, following Intermountain's merger with Snake River Bancorp, Inc./Magic Valley Bank. Mr. Patrick was a founding director of Magic Valley Bank, and he served on the Snake River Bancorp, Inc. Board from the company's formation in 2002 until its merger with Intermountain. Mr.

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Patrick has been the owner/operator of a farm in south central Idaho since 1972 and has served on the boards of various state and national farm organizations. In 2006, Mr. Patrick was elected to the Idaho State Legislature as Representative for District 23.

Michael J. Romine has been a director of Intermountain since 1997 and Panhandle State Bank since 1980. Mr. Romine served as the Vice President and Chief Financial Officer of Inland Northwest Distributing, Inc. from 1992 until his retirement in 2007.

Jerry Smith has been a director of Intermountain and Panhandle State Bank since 2000. Mr. Smith joined Panhandle State Bank in 1999 as President of Intermountain Community Bank, a division of Panhandle State Bank. Since 2001, Mr. Smith has served as President of Panhandle State Bank and Executive Vice President of Intermountain. Mr. Smith has 29 years of banking experience, beginning with Idaho First National Bank in 1979.

CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Board of Directors is committed to good business practices, transparency in financial reporting and the highest level of corporate governance. Intermountain operates within a comprehensive plan of corporate governance for the purpose of defining responsibilities, setting high standards of professional and personal conduct and assuring compliance with such responsibilities and standards. We regularly monitor developments in the area of corporate governance, and our corporate governance policies, practices and committee charters are reviewed periodically and updated as necessary to reflect changes in regulatory requirements and evolving oversight practices.

Code of Ethics

The Company adopted a Code of Ethics for Senior Financial Officers, which applies to its principal executive officer, principal financial officer, principal accounting officer or controller, as well as to directors and all other employees of the Company and Panhandle State Bank and its divisions.

You can access the Company's current Code of Ethics, as well as our Audit, Compensation and Nominating/Corporate Governance Committee charters by visiting one of our websites (www.panhandlebank.com, www.magicvalleybank.com, or www.intermountainbank.com) and clicking on the *Governance Documents* link under *Investor Relations*, or by writing to: Intermountain Community Bancorp, c/o the Corporate Secretary, P. O. Box 967, Sandpoint, Idaho 83864.

Director Independence

The Board has analyzed the independence of each director and nominee and has determined that each of the following members of the Board meet the applicable laws and listing standards regarding independence as defined by the Nasdaq listing standards and that each such director is free of relationships that would interfere with the individual exercise of independent judgment. In determining the independence of each director, the Board considered many factors, including any lending arrangements with the directors, each of which were made on the same terms as comparable transactions made with other persons. Such arrangements are discussed in detail in the section entitled *Transactions with Management*.

Based on these standards, the Board determined that each of the following non-employee directors is independent and has no relationship with Intermountain, except as a director and shareholder:

Charles L. Bauer
James T. Diehl
Ford Elsaesser
Maggie Y. Lyons

John B. Parker
Michael J. Romine
Barbara Strickfaden
Douglas P. Ward

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In addition, based on such standards, the Board determined that Curt Hecker, the President and Chief Executive Officer of Intermountain, and Jerry Smith, the Executive Vice President of Intermountain and President of Panhandle State Bank, are not independent because they are executive officers of Intermountain. The Board further determined that Ronald Jones and Jim Patrick do not meet the independence standards of Nasdaq as a result of the Snake River Bancorp, Inc./Magic Valley Bank transaction described in the section *Certain Relationships and Related Transactions*.

Shareholder Communications with the Board of Directors

The Company and the Board of Directors welcome communication from shareholders and other interested parties. Communications may be made by writing to the Chairman of the Board, c/o the Corporate Secretary, Intermountain Community Bancorp, P. O. Box 967, Sandpoint, Idaho 83864. A copy of such written communication will also be sent to our Chief Executive Officer. If the Chairman and the Chief Executive Officer determine that such communications are relevant to and consistent with our operations and policies, such communications will be forwarded to the entire Board for review and consideration.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors met ten times during the fiscal year ending December 31, 2007. Each director attended at least 75% of the aggregate number of meetings of the Board and of the committees on which he or she served, except Terry Merwin, Maggie Lyons and Jim Patrick. We encourage, but do not require, directors to attend annual shareholder meetings. Last year, all of our directors attended the annual shareholder meeting. In 2007, our independent directors met six times without management present.

The Board of Directors has established, among others, an Audit Committee, a Compensation Committee, and a Nominating/Corporate Governance Committee. In addition, Panhandle State Bank, Intermountain's wholly owned subsidiary, has various committees on which directors serve, including the Loan, Compliance, and Technology Committees.

The following table shows the membership of certain committees of the Board during 2007.

Committee Membership

Name	Audit	Compensation	Nominating
Charles L. Bauer	þ	þ	þ
James T. Diehl	o	þ*	o
Ford Elsaesser	o	þ	þ
Maggie Y. Lyons	þ	þ	o
Terry L. Merwin**	o	o	þ
John B. Parker	þ	þ	þ
Michael J. Romine	þ*	þ	o
Barbara Strickfaden	o	o	þ*
Douglas P. Ward**	þ	o	þ

* Committee
Chair

** Mr. Merwin
retired from the
Board effective
December 31,
2007 and
Mr. Ward will
retire effective
at the 2008
annual meeting.

Audit Committee. During 2007, the Audit Committee was comprised of five directors, each of whom was considered independent as defined by the Nasdaq listing standards. The Board has determined that Michael J. Romine meets the definition of audit committee financial expert as defined by rules adopted by the Securities and Exchange Commission (SEC) under the Sarbanes-Oxley Act of 2002 (Sarbanes Act).

The Committee operates under a formal written charter, a copy of which is available on our website. As part of its periodic review of audit committee-related matters, the Audit Committee has received updates on the relevant requirements of the Sarbanes Act and the revised rules of the SEC. Even though our stock is not currently listed on Nasdaq, the Audit

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Committee has also considered the corporate governance listing standards of Nasdaq in updating its charter. The Audit Committee held 11 meetings during the year.

The Audit Committee is responsible for the oversight of the quality and integrity of our financial statements, compliance with legal and regulatory requirements, the qualifications and independence of its independent auditors, the performance of its internal audit function and independent auditors, and other significant financial matters. It is the responsibility of management to prepare our financial statements and to maintain internal controls over the financial reporting process. In discharging its duties, the Audit Committee, among other things:

Has the sole authority to appoint, retain, compensate, oversee, evaluate and replace the independent auditors;

Reviews and approves the engagement of our independent auditors to perform audit and non-audit services, and fees related to these services;

Meets independently with our internal auditing department, independent auditors and senior management;

Reviews the integrity of our financial reporting process;

Reviews our financial reports and disclosures submitted to bank regulatory authorities;

Maintains procedures for the receipt, retention and treatment of complaints regarding financial matters; and

Reviews related person transactions.

Compensation Committee. During 2007, the Compensation Committee was comprised of six directors, each of whom was considered independent as defined by the Nasdaq listing standards. The Compensation Committee reviews the performance of the Company's Chief Executive Officer and other key employees and determines, approves and reports to the Board on the elements of their compensation and long-term equity based incentives. In 2005, the Committee independently retained an outside human resources consulting firm, RSM McGladrey, to assist the Committee in its deliberations regarding executive compensation for the Chief Executive Officer and other key executives. The mandate of the consultant was to serve the Company and work for the Committee in its review of executive compensation practices, including overall executive compensation philosophy, the competitiveness of pay levels and market trends. RSM McGladrey provided the Committee with relevant market data and alternatives to consider when determining executive compensation. The Company relied on the 2005 RSM McGladrey report, as well as the Moss Adams Bankers Compensation Survey and the Milliman Northwest Financial Industry Salary Survey to assist in determining 2007 executive officer compensation. In addition to the process and procedures discussed above, in determining compensation for the other key executives, the Committee also takes into account the recommendations of the Chief Executive Officer.

In addition the Committee:

Recommends, if appropriate, new employee benefit plans to the Board of Directors;

Reviews all employee benefit plans; and

Makes determinations in connection with compensation matters as may be necessary or advisable.

The Compensation Committee operates under a formal written charter, a copy of which is available on our website. The Compensation Committee met four times during the year for the purposes of reviewing salary and incentive compensation for the Chief Executive Officer and certain other executive officers, and reviewing and recommending to the full Board stock option or restricted stock awards for executive officers.

Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee (Nominating Committee) is comprised of six directors, each of whom is considered independent as defined by the Nasdaq listing standards. The Committee is responsible for recommending a slate of directors for election at Intermountain's annual meeting and appointing directors to fill vacancies as they occur. It is also responsible for (i) considering management

succession plans, the appropriate Board size and committee structure and appointments; (ii) determining Board and Committee compensation; and (iii) developing and reviewing corporate governance principles applicable to Intermountain and its subsidiaries. The Committee operates under a formal written charter, a copy of which is available on our website.

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The Nominating Committee will consider nominees recommended by shareholders, provided that the recommendations are made in accordance with the procedures described in this Proxy Statement under *Shareholder Proposals and Director Nominations*. The Committee evaluates all candidates, including shareholder-proposed candidates, using generally the same methods and criteria, although those methods and criteria are not standardized and may vary from time to time. The Nominating Committee is authorized to establish guidelines for the qualification, evaluation and selection of new directors to serve on the Board. We do not anticipate that the Committee will adopt specific minimum qualifications for Committee-recommended nominees, but that the Committee will instead evaluate each nominee on a case-by-case basis, including assessment of each nominee's business experience, involvement in the communities served by the Company, and special skills. The Nominating Committee will also evaluate whether the nominee's skills are complimentary to existing Board members' skills, and the Board's need for operational, managerial, financial, technological or other expertise, as well as geographical representation of the Company's market areas.

The Corporate Governance Guidelines stipulate that within 12 months of commencing service as a director, and continuing thereafter while serving as a director, each director of Intermountain and each director of Panhandle State Bank shall own shares of Intermountain common stock having a book value of at least \$500. All directors have met this stock ownership requirement.

Report of Audit Committee

The Audit Committee of the Board of Directors makes the following report which, notwithstanding anything to the contrary set forth in any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, will not be incorporated by reference into any such filings and will not otherwise be deemed to be proxy soliciting materials or to be filed under such Acts.

The Audit Committee operates under a written charter that is reviewed annually by the Board of Directors and complies with all current regulatory requirements. Our agendas are controlled by the Committee Chair. The Audit Committee met 11 times during the year.

The Audit Committee provides assistance to the Board of Directors in fulfilling its oversight responsibilities relating to our corporate accounting and reporting practices, and the quality and integrity of our financial reports. The purpose of the Committee is to serve as an independent and objective party to monitor our financial reporting process and internal control system, review and appraise the audit effort of our independent accountants and internal auditing department, and maintain free and open means of communication between the Board of Directors, the independent accountants, financial management, and the internal audit department.

The Audit Committee is responsible for assuring the independence of the independent auditor and for retention, supervision and termination of the independent auditor. The independent auditor reports directly to the Audit Committee. The Committee has established a policy for approval of non-audit related engagements awarded to the independent auditor. Such engagements must not impair the independence of the auditor with respect to Intermountain, as prescribed by the Sarbanes Act. As a result, payment amounts are limited and non-audit related engagements must be approved in advance by the Committee. The Audit Committee determines the extent of funding that we must provide to it, and has determined that such amounts are sufficient to carry out its duties.

Management has the primary responsibility for our financial statements and reporting process, including the system of internal controls and reporting. Our independent auditors are responsible for performing an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Audit Committee monitors the integrity of our financial reporting process and system of internal controls and monitors the independence and performance of our independent auditors and internal auditors.

With respect to the year ended December 31, 2007, in addition to its other work, the Committee:

Reviewed and discussed with management the audited consolidated financial statements of Intermountain as of and for the year ended December 31, 2007;

Reviewed and discussed with management the results of the assessment of the Internal Controls Over Financial Reporting;

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Discussed with BDO Seidman, LLP, the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, with respect to its review of the findings of the independent auditor during its examination of our financial statements;

Received from BDO Seidman, LLP, written affirmation of their independence as required by Independence Standards Board Standard No. 1 (Independent Discussion with Audit Committee), discussed with the auditors the firm's independence, and determined that the provision of non-audit services was compatible with maintaining auditor independence; and

Discussed with our internal and independent auditors the overall scope and plan for their respective audits. The Audit Committee met with the internal and independent auditors, with and without management present, to discuss the results of their examination, their evaluations of our internal controls and the overall quality of our financial reporting.

The Committee recommended, based on the review and discussion summarized above, that the Board of Directors include the audited consolidated financial statements in Intermountain's Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the SEC. The Audit Committee also appointed and recommended to the Board for approval and ratification the retention of BDO Seidman, LLP as the Company's independent registered public accounting firm for 2008. The Board has approved and ratified the appointment.

2007 Audit Committee Members

*Michael J. Romine (Chairperson) * Charles L. Bauer * Maggie Y. Lyons * John B. Parker * Douglas P. Ward*

DIRECTOR COMPENSATION

All directors, including those who are Company employees, receive fees for their service on the Board of Directors. We review the level of compensation of our directors on an annual basis. To determine the appropriate level of compensation for our directors, we obtain information from a number of different sources, including publicly available data describing director compensation in peer companies and information obtained directly from other companies.

Non-employee directors receive a mix of cash and equity-based compensation. In particular, non-employee directors receive an annual cash retainer based on the chairmanship of the Board and its committees. For 2007, the following retainer fees were paid: Chairman of the Board \$9,760, Chair of the Audit Committee \$9,260, other committee chairs between \$8,760 - \$8,260, and non-employee directors \$7,260. In addition to the retainer, directors received aggregate fees for Board meetings attended during 2007 as follows: Chairman of the Board \$23,240, Chair of the Audit Committee \$18,740, other committee chairs between \$18,240 - \$17,740, and non-employee directors \$10,740. Non-employee directors also receive annual restricted stock awards under our Amended and Restated Director Stock Plan, as discussed below. Directors who are employees received an annual cash retainer of \$5,760 and aggregate fees for each Board meeting attended during 2007 of \$9,240, but do not receive restricted stock awards for their service as directors.

The following table shows compensation earned during the last fiscal year by our directors. The footnotes to the table describe the details of each form of compensation paid to directors.

Table of Contents**2007 Director Compensation Table**

Name	Fees Earned or			All Other Compensation (\$)(4)	Total (\$)
	Paid in Cash (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)(3)		
Charles L. Bauer	\$ 25,176	\$ 1,880	\$ 1,806	\$ 111	\$28,973
James T. Diehl	27,000	1,880	1,806	0	30,686
Ford Elsaesser	24,222	1,880	1,806	0	27,908
Ronald Jones	25,996	1,336	12,404	211	39,947
Curt Hecker	15,000	0	0	0	15,000
Maggie Y. Lyons	27,000	1,880	1,806	0	30,686
Terry L. Merwin	14,778	1,880	1,806	0	18,464
John B. Parker	32,996	1,880	1,806	0	36,682
Jim Patrick	15,852	1,336	12,404	597	30,189
Michael J. Romine	28,004	1,880	1,806	0	31,690
Jerry Smith	15,000	0	0	0	15,000
Barbara Strickfaden	27,142	1,880	11,876	0	40,898
Douglas P. Ward	18,000	1,880	1,806	40,414	62,100

(1) Amounts reflect fees paid to directors in the form of an annual retainer and per-day fees for each Board meeting attended.

(2) These amounts reflect the total compensation cost recognized for fiscal 2007 in accordance with FAS 123(R), for financial statement reporting for restricted stock granted under the Amended and Restated Director Stock Plan (Director Plan). The

assumptions used to determine these amounts are discussed in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (Financial Statements). The 2007 restricted stock awards granted to the directors on February 28, 2007, had an aggregate grant-date fair value of \$44,880, which value was calculated in accordance with FAS 123(R) and determined using a share price of \$21.82, the closing price of the Company s common stock on the grant date as reported on the OTC Bulletin Board. Although each restricted stock award vests in 20% installments on each anniversary of the date of grant, we

recognized
expense
proportionately
as if the
restricted shares
vested monthly
rather than
annually.
Amounts have
been adjusted to
reflect stock
splits and stock
dividends.

At fiscal year
end, each
non-employee
director held
unvested shares
of
Intermountain
common stock
granted pursuant
to restricted
stock awards as
follows:
Mr. Bauer 473
shares;
Mr. Diehl 473
shares;
Mr. Elsaesser
473 shares;
Mr. Jones 351
shares; Ms.
Lyons 473
shares;
Mr. Merwin 473
shares;
Mr. Parker 473
shares;
Mr. Patrick 351
shares;
Mr. Romine 473
shares;
Ms. Strickfaden
473 shares and
Mr. Ward 473
shares.

(3) These amounts
reflect the total

compensation cost recognized for fiscal 2007 in accordance with FAS 123(R), for financial statement reporting for stock options granted under the Director Plan. The assumptions used to determine these amounts are discussed in the Notes to the Financial Statements.

As of December 31, 2007, each non-employee director held in the aggregate outstanding stock option awards (vested and unvested) to purchase shares of Intermountain as follows:

Mr. Bauer	364 shares;
Mr. Diehl	19,512 shares;
Mr. Elsaesser	19,512 shares;
Mr. Jones	6,353 shares;
Ms. Lyons	545 shares;
Mr. Merwin	544 shares;
Mr. Parker	545 shares;
Mr. Patrick	

6,353 shares;
Mr. Romine
19,512 shares;
Ms. Strickfaden
6,353 shares and
Mr. Ward 2,827
shares. Amounts
have been
adjusted to
reflect stock
splits and stock
dividends.

- (4) Represents the premium paid by Intermountain on behalf of Messrs. Jones and Patrick in connection with the split dollar life insurance, the terms of which are described below in the amounts of \$211 and \$597, respectively, and the gain on above-market earnings on non-qualified deferred compensation for Messrs. Bauer and Ward in the amounts of \$111 and \$40,414, respectively.

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Split Dollar Life Insurance. Ronald Jones and Jim Patrick, the two directors of Intermountain who are former directors of Snake River Bancorp, Inc., are parties to split-dollar life insurance agreements with Magic Valley Bank. Panhandle State Bank has assumed these agreements, which are identical to those with the other former Snake River Bancorp, Inc. directors. Pursuant to the terms of the agreements, (i) Panhandle State Bank is obligated to pay the premiums on a bank-owned life insurance policy; and (ii) beneficiaries of the directors will receive a certain portion of any death benefits upon the death of the directors.

Amended and Restated Director Stock Plan. Intermountain previously maintained a director stock option plan (the Director Plan) for the benefit of non-employee directors, under which we generally made annual stock option grants to non-employee directors on an annual basis during each year prior to 2005. In 2005, shareholders approved amending the plan to provide for the grant of restricted stock awards, and since then we have made annual equity grants to non-employee directors in the form of restricted stock awards. As of December 31, 2007, 62,233 shares remain available for future grant. Options and restricted stock awards granted under the Director Plan typically vest over a five-year period in 20% installments beginning on the first anniversary of the date of grant. Stock options granted under the Director Plan have an exercise price equal to the fair market value of our common stock on the date of grant as determined by the Board, and typically expire ten years from the date of grant. Restricted stock awards do not require payment of a cash purchase price for the shares.

We historically used the closing bid price for valuing stock awards and stock options under our respective plans. However, consistent with the executive compensation rules adopted by the SEC, all awards made after December 31, 2006 were granted at the closing market price on the date of grant.

EXECUTIVE COMPENSATION

The following section describes the compensation that Intermountain pays its Chief Executive Officer, Chief Financial Officer and the next three most highly compensated executive officers (the Named Executive Officers). This section includes:

The Compensation Discussion and Analysis (CD&A) of management on executive compensation;

Detailed tables showing compensation of the Named Executives; and

Narrative disclosure about various compensation plans and arrangements and post employment and termination benefits.

Compensation Discussion and Analysis

Compensation Philosophy and Objectives

We believe that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and that aligns the executive s interests with those of the stockholders by rewarding performance above established goals, with the ultimate objective of improving stockholder value. We evaluate both performance and compensation to ensure that we are able to attract, retain and motivate executives of superior ability who are critical to our future success. We believe that compensation paid to executive officers should be directly aligned with our performance, and to this end a significant portion of an executive s compensation should be based on achievement of financial and operational goals and other factors that impact shareholder value. Moreover, compensation provided to our executive officers must remain competitive relative to the compensation paid to similarly situated executives of peer companies. To accomplish these objectives, we believe executive compensation packages should include both cash and stock-based compensation with both short-term and long-term incentives in order to reward performance as measured against established goals.

Administration of Compensation Programs and the Role of Executive Officers

The Compensation Committee (the Committee) of the Board has the responsibility for establishing, maintaining and administering the Company s compensation programs and employee benefit plans, including reviewing and approving compensation of the Chief Executive Officer and other executive officers. In particular, the Committee determines and approves, or recommends to the entire Board for approval, the base salary, bonus, incentive plans and equity awards for the

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Chief Executive Officer. Our Chief Executive Officer, with input from our Vice President Human Resources, makes recommendations to the Committee regarding the base salary, target bonus levels, actual bonus payouts and long-term incentive grants for the remainder of our executive team. The Chief Executive Officer makes these recommendations based in part on periodic performance reviews of each executive officer, as well as data and analysis provided by RSM McGladrey, our compensation consultant (discussed below). The Chief Executive Officer is not involved in determining his own compensation package. The Committee has discretion to approve, disapprove or modify recommendations made by our Chief Executive Officer, and then provides a recommendation regarding compensation of our executive team to the Board for its approval.

Overview of Executive Compensation Components

Our executive compensation program consists of several compensation elements, as illustrated in the table below:

Pay Element	What the Pay Element Rewards	Purpose of the Pay Element
Base Salary	Core competence in the executive role relative to skills, experience and contributions to the Company	Provide fixed compensation based on competitive market practice
Short-Term Incentive	Contributions toward the Company's achievement of specified objectives. Currently, bonuses under this plan are based on net income and average asset growth. Bonuses under the Short-Term Incentive plan are paid prior to March 15 th of the following year	<p>Provides focus on meeting annual goals that lead to the Company's long-term success</p> <p>Provides annual performance-based cash incentive compensation</p> <p>Motivates achievement of critical annual performance metrics</p>
Long-Term Incentive	Restricted Stock Awards and Stock Purchase Bonus Program	The combination of restricted stock awards, the Stock Purchase Bonus Program and the Long-Term Incentive Plan provides a blended focus on
	Sustained stock price appreciation, thereby aligning executives interests with those of shareholders	Profitability
	Continued employment with the Company during a 5-year vesting period with respect to restricted stock awards	Executive ownership of Company stock
	Continued employment with the Company during a 3-10 year bonus payout period for purchasing shares under the Stock Purchase Bonus Program	Retention in a challenging business environment and competitive labor market
	Long-Term Incentive Plan	
	Based on average asset growth and average annual return on equity	

Continued employment with the Company over a five-year period, consisting of the three-year performance period and two years of vesting following the performance period

Retirement
Benefits

Executive officers are eligible to participate in employee benefit plans available to our eligible employees

The SCA is designed to make total retirement benefits for certain Named Executive Officers commensurate with those in comparable peer groups

The Salary Continuation Agreement (SCA) is a nonqualified, noncontributory and unfunded program. The SCA is intended to provide additional retirement benefits to certain Named Executive Officers

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Pay Element	What the Pay Element Rewards	Purpose of the Pay Element
Welfare Benefits	Executives participate in employee benefit plans generally available to our employees, including medical, health, life insurance and disability plans	These benefits are part of our broad-based total compensation program
	Continuation of welfare benefits may occur as part of severance upon certain terminations of employment	
Additional Benefits and Perquisites	Club memberships Company provided auto or auto allowance Life Insurance & Accidental Death & Dismemberment Coverage Short-Term and Long-Term Disability	Club memberships facilitate the executive's role as a Company representative in the community
Change in Control and Termination Benefits	We have change in control agreements with certain officers, including our Named Executive Officers. The agreements provide severance benefits if an officer's employment is terminated following a change in control.	Change in control arrangements are designed to retain executives and provide continuity of management in the event of an actual or threatened change in control. The change in control agreements are described in more detail in the section <i>Post Employment and Termination Benefits</i> .

The use of these programs enables us to carry out our pay for performance philosophy, as well as to strengthen our ability to attract and retain highly qualified executives. This combination of programs provides an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term shareholder value, and encourages executive recruitment and retention.

Determination of Appropriate Pay Levels

In general, we seek to provide competitive pay by targeting the top 25th percentile relative to a peer group for total compensation opportunities, including salary, short-term incentive, remaining stock option vesting, restricted stock awards and long-term incentives. To achieve that positioning within our philosophy of pay for performance, we provide competitive compensation for exceptional performance relative to established financial goals. The peer group consists of six publicly traded companies and includes many of the Company's direct competitors including Cascade Bancorp, Cascade Financial Corporation, Columbia Bancorp, Idaho Independent Bank, Pacific Continental Corporation and Premier West Bancorp (Peer Group).

We compare compensation paid to our Named Executive Officers with compensation paid to executive officers in comparable positions at similar companies. From time to time, the Committee has engaged RSM McGladrey, an outside human resources consulting firm, to conduct reviews of the total compensation program for the Chief Executive Officer and the remainder of our executive team. RSM McGladrey provides the Chief Executive Officer and our Committee with relevant market data and alternatives to consider in structuring executive compensation packages. In addition, the Committee also considers the Moss Adams Bankers Compensation Survey and the Milliman Northwest Financial Industry Salary Survey.

2007 Base Salary

Our base salary levels reflect a combination of factors, including competitive pay levels relative to peer groups, each executive's experience and tenure, our overall annual budget for merit increases and net income, the executive's individual performance and changes in responsibility. We review salary levels annually to recognize these factors. We do not target base salary at any particular percent of total compensation, however, incentive pay is more heavily weighted in the total compensation package as an effort to retain and motivate the executive group.

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As noted above, our compensation philosophy includes setting competitive base salaries for comparable positions at similarly situated companies. Base salary increases for our Named Executive Officers were as follows: Mr. Nagel's base salary increased by 4.0% over 2006, Ms. Rasmussen and Mr. Smith were granted a 6% base pay increase over 2006 and Mr. Wright was granted a 7.2% base pay increase over 2006. We established these increases after considering job performance, internal pay alignment and equity and marketplace competitiveness. These increases are consistent with comparative marketplace data and were within our 2007 budget limits for pay increases.

The Compensation Committee had recommended that our Chief Executive Officer receive an approximately 8.0% increase over 2006, since his base pay is below the Peer Group; however, our Chief Executive Officer declined any increase from his 2006 base salary.

2007 Short-Term Incentive Plan

The Short-Term Incentive Plan (ST Incentive Plan) provides our executive officers with an opportunity to earn annual cash bonuses based on our achievement of certain pre-established performance goals. In setting short-term incentives, we consider a combination of factors in establishing the annual target bonus opportunities for our Named Executive Officers. Budgeted net income and average asset growth are primary factors, as target bonus opportunities are adjusted annually when we set our net income goals for the year. We budget short-term incentive opportunities as a percentage of base compensation.

For our Named Executive Officers, we set short-term incentive opportunities based on achievement of performance goals relating to net income and average asset growth of the Company; factors which we believe have a strong correlation with shareholder value. The profit goals for the Company for 2007 short-term incentive opportunities are at levels that are intended to reflect improvements in performance over the prior fiscal year and better than average growth within our competitive industry. Our Chief Executive Officer recommends specific performance targets, which the Committee then reviews and approves, rejects or modifies before forwarding its recommendation to the Board for approval.

Grants to the Named Executive Officers under our Short-Term Incentive Plan in 2007 were determined by considering the following factors:

Competitive market data, defined by the competitive award levels summarized by RSM McGladrey in 2005, the Moss Adams Bankers Compensation Survey and the Milliman Northwest Financial Industry Salary Survey;

The officer's responsibility and individual performance level;

The officer's specific function within the overall organization structure; and

The Company's profitability and general performance (including issues of compliance and safety and soundness) in the preceding year.

Once performance goals have been set and approved, the Committee then sets a range of short-term bonus opportunities for the executive group. Target short-term incentive opportunities for 2007 were set as a percentage of each Named Executive Officer's base salary, and were weighted at 60% net income after tax and 40% average asset growth.

Actual bonus amounts for 2007 were determined based on relative achievement of the performance goals of net income and average asset growth. The Named Executive Officers were eligible to earn from 0% to up to 100% of their base pay, with the maximum achievable if the Company achieved the maximum net income and average asset growth targets. No bonus is earned if performance falls below specified net income and average asset growth minimum thresholds. For 2007, the Company's actual net income and the average asset growth was below the targeted level of \$10.5 million and 20%, respectively, but exceeded the minimum threshold of \$9.2 million and 10%, respectively, resulting in maximum bonus payments equal to 28% of the Named Executive Officers' base pay.

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For additional information about the 2007 Short-Term Incentive plan, please refer to the *Grants of Plan-Based Awards* table, which shows the threshold, target and maximum bonus amounts payable under the plan for 2007, and the Summary Compensation Table, which shows the actual amount of bonuses paid under the plan to our Named Executive Officers for 2007.

Long-Term Incentives

In 2007, the Committee granted restricted stock awards (RSAs) to each of our Named Executive Officers under the Company's Employee Stock Option and Restricted Stock Award Plan. In addition, the Company also maintains the 2006-2008 Long-Term Incentive Plan which was approved by shareholders in 2007. The 2006-2008 Long-Term Incentive Plan serves as a replacement to our 2003-2005 Long-Term Incentive Plan. The Committee believes these compensation measures are effective for aligning executive performance and achievement with shareholder interests, and also contribute to retention of our executive team. The material terms of the following incentive programs are discussed in the section *Executive Compensation - Executive Bonus Programs*.

Restricted Stock Awards: RSAs are intended to retain key employees by granting awards of stock that vest over a period of time. RSAs provide the opportunity for capital accumulation and more predictable long-term incentive value, encourage ownership, and result in business decisions that may drive stock price appreciation. RSAs generally are awarded to the Named Executive Officers once a year, at the same time as awards to the other eligible employees. RSAs are shares of Intermountain common stock that are subject to forfeiture restrictions which require that an employee remain with us through each vesting date. RSAs generally vest in 20% installments beginning on the first anniversary from the date of grant. Holders of RSAs have the same rights as a shareholder as to voting and dividend rights. Any unvested RSAs generally are forfeited if the holder terminates employment with the Company. During 2007, Messrs. Hecker, Smith, Wright, Nagel and Ms. Rasmussen were awarded 2,860, 2,279, 2,163, 1,859 and 1,859 shares of restricted stock, respectively, as adjusted for stock splits and stock dividends.

Stock Purchase Bonus Program: The Stock Purchase Bonus Program is not based on the achievement of specific performance objectives, but rather professional performance generally. The Board of Directors, or Compensation Committee as appropriate, approve awards under this program on a case-by-case basis. Executives who are invited to and who participate in the program purchase shares of Intermountain stock, and generally receive a bonus equal to 20% of the purchase price each year following the original purchase date. In certain circumstances, executives may receive a bonus that exceeds the amount of stock required to be purchased under their respective agreement. For instance, during 2007 an award of \$200,000 was approved for Ms. Rasmussen for the purchase of \$100,000 of Intermountain common stock. Ms. Rasmussen's award was intended to increase her level of stock ownership to a level that was more comparable to the other executives based on her strong performance since beginning employment with the Company in 2004. The Stock Purchase Bonus Program has the additional purpose of encouraging the officers of Intermountain and/or Panhandle State Bank to own Intermountain common stock. During 2007, Messrs Wright, Nagel and Ms. Rasmussen were paid \$12,000, \$10,000 and \$33,000, respectively, under the Stock Purchase Bonus Program.

2006-2008 Long-Term Incentive Plan: The Named Executive Officers are participants in the 2006-2008 LTIP. Based on average annual return on equity and average asset growth rate targets for the three-year period ended December 31, 2008, each Named Executive Officer will have an opportunity to earn shares of restricted stock as allocated by the Committee subject to the terms of the plan. Depending on performance relative to the average return on equity and average asset growth rate targets, shares will be issued on January 5, 2009 (following expiration of the performance period), and one-third of such shares are vested upon grant, with an additional one third vesting on each subsequent anniversary of the grant date, subject to continued employment by such Named Executive Officer through each such vesting date. The Board approved an allocation of awards under the plan of 50% of the shares to the Chief Executive Officer, with the remaining 50% to be allocated among the remainder of the executive team based on the Chief Executive Officer's evaluation of each executive's performance.

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The 2003-2005 LTIP is the predecessor to the 2006-2008 LTIP and contained terms substantially similar in framework to the terms of the 2006-2008 LTIP. The Board of Directors originally approved an allocation of shares under this plan of 50% to our Chief Executive Officer and 50% to be divided between the other executives based on their comparative base salaries. Our Chief Executive Officer instead recommended an allocation of 35% to himself and 65% to be divided between the remaining executive team, and this recommendation was approved by the Compensation Committee. Accordingly, Messrs. Hecker, Smith, Wright and Nagel were awarded 33,033, 22,340, 21,395 and 17,621 shares of Intermountain common stock, respectively, as adjusted for stock splits and stock dividends, of which one-third were vested upon grant and the remaining vested in one third increments in January 2007 and January 2008.

In general, the number of shares of restricted stock awarded to the Named Executive Officers is determined by targeting a value that is above the long-term compensation provided by our Peer Group, based on competitive market data provided by RSM McGladrey. The Committee's goal is to provide compensation opportunities through incentive programs that exceed the base salaries provided to our Named Executive Officers. Determining long-term incentive awards in this manner assists us in achieving our target compensation objectives and is consistent with our total compensation philosophy. The main objectives of the programs are to 1) provide pay-for-performance opportunities and reinforce a high performance culture, 2) align the interests of our executives with our shareholders, and 3) design incentive plans that are simple, straightforward and transparent.

The Committee engages RSM McGladrey from time to time to review competitive long-term incentive grant levels, and we intend to closely monitor our competitive position, program alternatives and the financial implications to the Company. Please refer to the *Grants of Plan-Based Awards* and *Outstanding Equity Awards at Fiscal-Year End* tables and the related footnotes for additional information about long-term stock awards.

Impact of Accounting and Tax Treatment of Compensation

The Committee and management have considered the accounting and tax impacts of various programs designed to balance the potential cost to the Company with the benefit/value to the executive. With regard to Internal Revenue Code Section 162(m), it is the Committee's intent to maximize deductibility of executive compensation while retaining some discretion needed to compensate executives in a manner commensurate with performance and the competitive market for executive talent. With the adoption of FAS 123(R), we do not expect accounting treatment of differing forms of equity awards to vary significantly and, therefore, accounting treatment is not expected to have a material effect on the selection of forms of equity compensation in the future. In addition, the change in control provisions described in the section *Post Employment and Termination Benefits* contemplate that the Company will gross-up the amount of tax due under Internal Revenue Code Section 280G. Information relating to the potential payment by the Company under this provision is set forth in the *Post Employment and Termination Benefits* section of the proxy statement.

Report of Compensation Committee

The Compensation Committee of the Board of Directors makes the following report which, notwithstanding anything to the contrary set forth in any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, will not be incorporated by reference into any such filings and will not otherwise be deemed to be proxy soliciting materials or to be filed under such Acts.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis (CD&A) required by Item 402(b) of Regulation S-K with management, and based on that review and discussions, the Compensation Committee recommended to the Board that the CD&A be included as part of this Proxy Statement and 2007 Annual 10-K Report.

2007 Compensation Committee Members

*James T. Diehl (Chairperson) * Charles L. Bauer * Ford Elsaesser
Maggie Y. Lyons * John B. Parker * Michael J. Romine*

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The following table shows compensation paid or accrued for the last fiscal year to Intermountain's Chief Executive Officer, Chief Financial Officer and each of the top three Named Executives earning in excess of \$100,000.

2007 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$) (1)	Stock Awards (\$) (2)	Option Awards (\$) (3)	Non-Equity Deferred Incentive Plan Compensation (\$) (4)	Change in Pension Value and Nonqualified Compensation Earnings (\$) (5)	All Other Compensation (\$) (6)(7)	Total (\$)
Curt Hecker, President and CEO of the Company and CEO of the Bank	2007	\$208,000	\$ 0	\$ 58,389	\$ 5,989	\$ 58,240	\$28,577	\$11,451	\$370,646
	2006	208,000	0	274,239	8,368	108,160	16,460	7,500	622,727
Jerry Smith President of the Bank, EVP of the Company	2007	175,615	0	26,781	4,908	49,172	35,657	14,060	306,193
	2006	165,672	0	72,779	16,856	86,149	20,538	7,500	369,494
Douglas Wright, EVP and Chief Financial Officer of the Company and the Bank	2007	168,529	12,000	26,087	30,697	47,188	0	16,095	300,596
	2006	157,248	12,000	72,553	23,883	81,769	0	7,770	355,223
John Nagel EVP, Chief Credit Officer of the Bank	2007	140,608	10,000	23,465	39,781	39,370	0	13,050	266,274
	2006	135,200	10,000	71,627	49,004	70,304	0	4,400	340,535
Pamela Rasmussen EVP, Chief Operating Officer of the Bank	2007	143,312	44,370	27,476	3,544	40,127	0	9,097	267,926
	2006	135,200	14,370	75,638	3,544	70,304	0	7,770	306,826

(1) Includes bonus amounts that vested under the Stock Purchase Bonus Program for Mr. Wright, Mr. Nagel and Ms. Rasmussen, and an amount vested under a

Retention Bonus Agreement for Ms. Rasmussen. The terms of the Stock Purchase Bonus Program and Ms. Rasmussen's Retention Bonus Agreement are discussed below.

- (2) Represents the proportionate amount of the total fair value of the stock awards recognized by Intermountain as an expense in 2007 for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. The fair values of these awards and the amounts expensed in 2007 were determined in accordance with FAS 123(R). The awards for which expense is shown in this table include the awards described in the Grants of Plan-Based Awards Table below as well as awards previously

granted for which the Company continued to recognize expense in 2007. The assumptions used in determining the grant date fair values of these awards are set forth in footnotes to the Grants of Plan-Based Awards table and in the notes to our Financial Statements, which are included in the accompanying Annual Report. The amounts have been adjusted to reflect all stock splits and stock dividends.

- (3) Represents the proportionate amount of the total fair value of the stock options recognized by Intermountain as an expense in 2007 for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. The fair values of

these options and the amounts expensed in 2007 were determined in accordance with FAS 123(R). The options for which expense is shown in this table include options previously granted for which the Company continued to recognize expense in 2007. The assumptions used in determining the grant date fair values of these awards are set forth in the notes to our Financial Statements, which are included in the accompanying Annual Report. The amounts have been adjusted to reflect all stock splits and stock dividends.

- (4) Represents bonuses accrued under the Short-Term Executive Incentive Plan for the fiscal year 2007, but paid in 2008.
- (5) Represents the increase during

2007 in actuarial present values of each Named Executive Officer's accumulated benefits under the individual Salary Continuation and Split Dollar Agreements.

- (6) Amounts reflect contributions paid by Intermountain or Panhandle State Bank under the 401(k) Savings Plan and Trust (401(k) Plan) in the following amounts:
- Mr. Hecker
\$7,750,
 - Mr. Smith
\$10,250,
 - Mr. Wright
\$6,098,
 - Mr. Nagel
\$7,403 and
 - Ms. Rasmussen
\$4,259.

- (7) Represent amounts paid by the Company to the executive in the form of 401(k) matching funds, automobile allowance, club dues and miscellaneous awards.

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The following table provides information on the grant of equity and non-equity awards during 2007. All amounts have been adjusted to reflect all stock splits and stock dividends.

Name		Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards \$	Grant Date Closing Price of Stock and Option Awards \$
			Threshold (\$)	Target (\$)	Maximum (\$)			
Curt Hecker	(1)	2/28/07	\$0	\$99,840	\$208,000			
	(2)	2/28/07				2,860	\$62,405	\$42,900
Jerry Smith	(1)	2/28/07	0	84,295	175,615			
	(2)	2/28/07				2,279	49,728	34,185
Douglas Wright	(1)	2/28/07	0	80,894	168,529			
	(2)	2/28/07				2,163	47,197	32,445
John Nagel	(1)	2/28/07	0	67,492	140,608			
	(2)	2/28/07				1,859	40,563	27,885
Pamela Rasmussen	(1)	2/28/07	0	68,790	143,312			
	(2)	2/28/07				1,859	40,563	27,885

(1) Represents threshold, target and maximum payout levels under the Short-Term Executive Incentive Plan for 2007 performance. The actual amount of incentive bonus earned by each Named Executive Officer in 2007 is reported under the Non-Equity

Incentive Plan
Compensation
column in the
Summary
Compensation
Table.
Additional
information
regarding the
design of the
Short-Term
Executive
Incentive Plan is
included in the
CD&A and also
discussed
below.

- (2) Represents a restricted stock award granted under Intermountain's Stock Option and Restricted Stock Plan that vests in 20% installments, beginning February 28, 2008, and becoming fully vested February 28, 2012.

In accordance with FAS 123(R), the fair market value of the restricted stock award on the date of grant was determined by the Compensation Committee to be the closing market price of Intermountain's common stock

on February 28,
2007 (\$21.82).
The material
terms of the
restricted stock
award are
discussed
below.

Executive Bonus Programs

General. Intermountain and Panhandle State Bank have implemented three executive bonus programs: Short-Term Executive Incentive Plan, Long-Term Incentive Plan and the Stock Purchase Bonus Program, the material terms of which are summarized below. The objectives of the two bonus programs (the Long-Term Incentive Plan and the Short-Term Executive Incentive Plan) are to provide the executive officers of Intermountain and Panhandle State Bank with specific performance objectives and goals, and to motivate such executive officers to reach such objectives and goals.

Short-Term Incentive Plan. The Short-Term Executive Incentive Plan is designed to provide incentive for management to achieve annual (as opposed to long-term) Company performance goals. The key executives who are eligible to participate in the plan include all of the Named Executive Officers identified in the Summary Compensation Table. Under the plan, prior to the beginning of each year, Intermountain's management selects appropriate performance criteria and develops annual performance goals for Intermountain for approval by the Compensation Committee. The performance criteria for 2007 consisted of net income after tax and average asset growth, with a weighting of 60% net income and 40% average asset growth. With respect to each performance criteria, at least three specific performance measurements are established: (i) a threshold level, the minimum acceptable level of performance below which no incentives will be paid, (ii) a target level, the expected level of performance, and (iii) an outstanding performance level, an exceptional level of performance that will generate maximum performance awards under the plan. Bonuses are calculated as a percentage of each participant's base salary, with the percentage dependent on which performance level is achieved. If employment is voluntarily (except for retirement) or involuntarily terminated (unless due to a sale transaction, or due to the retirement, death or disability of the participant) during a plan year, the executive's rights to any incentive award for that plan year will be forfeited. In the event of a sale transaction, as defined in the plan, or in the event of the retirement, death

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or disability of a participant, a bonus will be paid on a pro rata basis for performance level goals reached for the most recently-completed quarter.

Long-Term Incentive Plan. The Company believes that it is in the best interest of the Company and our shareholders to balance the compensation of our executive officers between short-term performance and long-term performance, to encourage decision-making that will benefit Intermountain in the longer term. To that end, the Company adopted the 2006-2008 LTIP (which was approved by shareholders at the 2007 annual meeting). Prior to that time, the Company had implemented the 2003-2005 LTIP, the terms of which were similar in nature to the 2006-2008 LTIP. The key executives who are eligible to participate in the 2006-2008 LTIP in 2007 include all of the executive officers identified in the Summary Compensation Table. Payments under the 2006-2008 LTIP are based on a three-year (from 2006 through 2008) running average of Intermountain's average annual return on equity and average annual net asset growth. In order to be eligible to receive a stock award, the key executives must have been continuously employed by Intermountain or Panhandle State Bank from 2006 through 2008. In addition, to receive the award, they must be employed by Intermountain or the Bank on the dates in which each portion vests. In the event of an executive's disability or death or a change in control (as defined), the stock award benefit will vest, on a pro rata basis, through the most recent quarter end. If employment is otherwise voluntarily or involuntarily terminated prior to an executive's receipt of stock benefits, such executive's rights to any awards under the plan will automatically be forfeited.

In 2006, the Company granted restricted stock awards to the Named Executive Officers under the 2003-2005 LTIP based on the achievement of pre-established Company goals. The shares subject to the award vested one-third on March 31, 2006, the date of grant, and the remaining in one third increments on each of January 2, 2007 and January 2, 2008, respectively.

Stock Purchase Bonus Program. The Company has adopted a Stock Purchase Bonus Program for executive officers and other officers of Intermountain and Panhandle State Bank. The program is implemented through the execution of individual stock purchase bonus agreements entered into by Intermountain and the officer. The purpose of the program is to encourage and incent officers of Intermountain and/or Panhandle State Bank to own Company stock, thereby further aligning the interests of management with those of Intermountain's shareholders. Under the agreement, these officers may purchase on the open market, shares of Intermountain common stock. If the officer makes such a purchase, the officer will generally be paid a bonus equal to the lesser of (i) the actual dollar amount paid by the officer for Intermountain shares, including fees and/or commissions; or (ii) a maximum award amount. In certain circumstances, however, the Company may elect to pay a bonus greater than the value of the stock required to be purchased under the agreement. This bonus is paid to the officer in either three, five or ten annual installments. In order to receive any payment installment, an officer must be a full-time employee on the date such installment is due and payable; provided, however, that in the event of officer's disability or death, and in some cases in the event of a change in control of Intermountain (as defined in the agreement), the balance of the bonus will become fully vested and the officer will become eligible to receive a cash payment equal to such remaining bonus.

Prior to 2007, Intermountain entered into stock purchase bonus agreements on substantially the terms described above with Douglas Wright in the amount of \$60,000, John Nagel in the amount of \$50,000, and Pamela Rasmussen in the amount of \$9,000. Bonuses under these respective agreements were paid in three to five equal installments, the final payment of which occurred during 2007. In addition, during 2007, the Company entered into an agreement with Ms. Rasmussen that provides for a bonus amount of \$200,000, with a stock purchase requirement of \$100,000, payable over a ten-year period.

Employee Stock Plan. Intermountain maintains an Employee Stock Option and Restricted Stock Plan (Employee Plan), as amended and approved by the shareholders, that provides for the grant of incentive and non-qualified stock options and restricted stock awards to key officers and employees of Intermountain and/or the Bank. Stock options under the Employee Plan expire ten years from the date of grant, and must have an exercise price of not less than the fair market value of Intermountain stock at the time of grant, as determined by the Board or the Compensation Committee. The number of shares subject to granted but unexercised options and stock awards, and the number of shares remaining available for grant under the Employee Plan, as adjusted for subsequent stock splits and stock dividends, are 45,096 and 185,166 shares, respectively.

The Compensation Committee meets annually to determine any award equity grants to executive officers under the Employee Plan. These awards typically vest over five years in order to motivate long-term performance and to serve as a retention tool for the executive officers.

Table of Contents**2007 Option Exercises and Stock Vested**

Name (a)	Option Awards *		Stock Awards *	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise (\$) (c)(1)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting (\$) (e)(2)
Curt Hecker	0	\$ 0	11,011	\$ 240,240
	0	0	605	10,854
	0	0	424	8,646
Jerry Smith	16,500	249,645	7,447	162,480
	871	11,339	363	6,512
	0	0	338	6,899
Douglas Wright	0	0	7,132	155,616
	0	0	363	6,512
	0	0	321	6,541
John Nagel	0	0	5,874	128,160
	0	0	303	5,436
	0	0	276	5,622
Pamela Rasmussen	1,326	21,150	707	14,403
	514	8,080	0	0
	3,752	57,123	0	0
	726	5,615	0	0

* The numbers have been adjusted to reflect all applicable stock splits and stock dividends

(1) Value realized represents the excess of the fair market value of the shares at the time of exercise over the exercise price (grant price) of the options.

(2) Value realized represents the fair market value (closing price) of the shares at the time of vesting.

2007 Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards *				Stock Awards *			
	Number of Securities Underlying	Number of Securities Underlying	Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other	Equity Incentive Plan Awards: Payout Value of Unearned Shares, Units or Other
Curt Hecker	46,379		\$4.42	01/14/09	6,373	\$95,601	11,011	\$165,165
	78,579		4.42	01/14/09			24,185 (1)	362,775
	5,760		3.72	01/01/11				
	3,845		3.72	01/01/11				
	1,437		5.51	01/01/13				
	4,312	1,438 (2)	5.51	01/01/13				

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Name	Option Awards *				Stock Awards *					
	Number of Securities Underlying	Number of Securities Underlying	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)		
Jerry Smith	3,384		\$ 3.73	06/21/10	4,719	\$70,785	7,447	\$111,705		
	9,663		3.73	01/01/11					6,046 (1)	90,690
	2,357	1,179 (2)	5.51	01/01/13						
Douglas Wright	15,263		4.82	05/31/12	4,535	68,025	7,132	106,980		
	13,977	3,993 (2)	5.51	01/01/13					6,046 (1)	90,690
	3,073	879 (3)	6.12	06/04/13						
	9,837	7,260 (4)	4.79	02/03/14						
John Nagel	14,494		3.87	05/23/11	3,870	58,050	5,874	88,110		
	3,513		4.16	01/01/12					6,046 (1)	90,690
	4,792	1,198 (2)	5.51	01/01/13						
	8,432	2,109 (3)	6.12	06/04/13						
	5,445	3,630 (4)	4.79	02/03/14						
Pamela Rasmussen	363	726 (5)	12.95	11/09/14	4,689	70,335	6,046 (1)	90,690		

* The numbers have been adjusted to reflect all applicable stock splits and stock dividends.

(1) Represents the shares that could be earned

by the Named Executives based on the threshold performance goals under the Company's 2006-2008 Long Term Incentive Plan. The shares subject to the award vest one-third January 5, 2009, the date of grant, one-third January 5, 2010 and the remaining one-third January 5, 2011, *provided*, that the executive is employed with the Company on the vesting date, subject to earlier termination due to a change in control, death or disability. For purposes of this table, it is assumed that the Chief Executive Officer receives 50% of the available award pool and the remaining 50% is divided equally among the remaining executives.

(2) Stock options became fully vested on January 1, 2008.

(3)

Stock options
become fully
vested June 4,
2008.

(4) Stock options
vest over a
three-year
period and
become fully
vested
February 3,
2009.

(5) Stock options
vest over a
three-year
period and
become fully
vested
November 9,
2009.

Table of Contents**Post Employment and Termination Benefits****2007 Pension Benefits**

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit
	(1)	(#) (2)	(\$) (3)
Curt Hecker	SCA/SDA	5 years	\$ 470,548
Jerry Smith	SCA/SDA	5 years	378,365
Douglas Wright	N/A	N/A	N/A
John Nagel	N/A	N/A	N/A
Pamela Rasmussen	N/A	N/A	N/A

(1) The terms of the Salary Continuation Agreement and Split Dollar Agreement (SCA/SDA) are described below.

(2) Under the terms of the SCA/SDA, executives must, in addition to other conditions, be employed with Intermountain through 2012.

(3) The estimated maximum annual retirement benefit payable under the SCA/SDA for Messrs. Hecker and Smith, payable at age

60 is as follows:

Mr. Hecker

\$148,000 and

Mr. Smith

\$111,000.

Salary Continuation Agreement and Split Dollar Agreement. Effective January 1, 2002, Panhandle State Bank entered into Salary Continuation Agreements and Split Dollar Agreements with Curt Hecker and Jerry Smith. Each of these agreements were amended and restated on January 1, 2008. The purpose of these agreements is to provide Mr. Hecker and Mr. Smith with additional retirement benefits. The agreements are unsecured and unfunded and there are no plan assets. Panhandle State Bank has purchased a single premium bank owned life insurance policy (BOLI policy) on the lives of Mr. Hecker and Mr. Smith and intends to use income from the BOLI policy to offset benefit expenses.

Upon reaching age 60 the salary continuation agreements provide for maximum annual payments to Mr. Hecker and Mr. Smith of \$148,000 and \$111,000, respectively, for a period of ten years. So long as Mr. Hecker and Mr. Smith remain employed by Panhandle State Bank until January 1, 2012, in the event that the employment of Mr. Hecker or Mr. Smith terminates for any reason and such individual is less than 60 years of age as of such termination (other than for death, disability, for cause or in connection with a change in control, as each term is defined in their respective salary continuation agreements), then Mr. Hecker would receive annual payments ranging from \$85,000 to \$148,000, and Mr. Smith would receive annual payments ranging from \$81,000 to \$111,000, depending on the date of their respective termination, during each of the 10 years beginning at age 60. If Mr. Hecker s or Mr. Smith s employment is terminated because of disability before the age of 60, each will receive an annual payment ranging from \$47,000 to \$148,000 (in the case of Mr. Hecker) and \$44,000 to \$111,000 (in the case of Mr. Smith), depending on the date of disability, during each of the 10 years beginning at age 60. Finally, if Mr. Hecker s or Mr. Smith s employment is terminated in connection with a change in control (so long as they are not terminated for cause, as defined), Mr. Hecker and Mr. Smith will be entitled to a lump sum payment of \$460,000 to \$1,110,000 (in the case of Mr. Hecker) and \$454,000 to \$834,000 (in the case of Mr. Smith), depending upon the date of the change in control. Furthermore, if Mr. Hecker or Mr. Smith is subject to any excise tax as a result of an acceleration of their respective benefits under this agreement in the event of a change in control, Mr. Hecker and Mr. Smith will receive a cash payment equal to the amount of their respective excise tax.

Under the salary continuation agreement and the split dollar agreement, Mr. Hecker s estate will receive a one-time payment of \$1,110,000 if Mr. Hecker dies before the age of 60, provided that Panhandle State Bank employed him at the time of death; and, subject to the same conditions, Mr. Smith s estate will receive a one time payment of \$834,000. The Bank will be the beneficiary of any death proceeds remaining after Mr. Hecker s or Mr. Smith s interest has been paid to their respective estates.

Table of Contents**Curt Hecker Employment Agreement**

Mr. Hecker serves as President and Chief Executive Officer of Intermountain and Chief Executive Officer of Panhandle State Bank under the terms of an employment agreement that was amended and restated effective January 1, 2008 to, among other things, incorporate and make such modifications as necessary to comply with Section 409A of the Internal Revenue Code (the Code). The agreement renews automatically for a new three-year term on January 1, 2011, unless earlier cancelled by the Board. The Compensation Committee set Mr. Hecker's annual salary for 2008 at \$216,320. The agreement grants Mr. Hecker four weeks of paid vacation annually and miscellaneous fringe benefits, including use of an automobile, as well as his eligibility to participate in incentive and stock plans made available to executive officers.

If Mr. Hecker's employment terminates involuntarily without cause or if he voluntarily terminates for any reason, he will be entitled to severance in an amount calculated at twice the average of his annual base salary over the two most recent calendar years payable in one lump sum on the first day of the seventh month after the month following termination. But if Mr. Hecker's employment terminates involuntarily (i) other than for cause, disability, retirement or death within 24 months after a change in control, or (ii) within the period between the date of entering into a definitive agreement and the effective date of the change in control, or (iii) if he terminates for good reason (as defined in the agreement), his severance would instead be calculated at twice the sum of his average annual base salary and short-term bonus over the two preceding years. The difference between the change-in-control severance amount (twice the average annual base salary and short-term bonus) versus severance payable for employment termination in other contexts (twice the average annual base salary) would also be payable to Mr. Hecker if his employment terminates involuntarily without cause or if he terminates for any reason within 12 months before an agreement for a change in control is entered into. The change-in-control severance is payable on the later of the date his employment terminated, the effective date of the change in control, or the first day of the seventh month after the month in which his employment was terminated.

The employment agreement also provides for a tax gross-up benefit if the aggregate benefits payable to Mr. Hecker after a change in control are subject to excise taxes under sections 280G and 4999 of the Internal Revenue Code. In general terms, Internal Revenue Code section 280G disallows an employer's compensation deduction for so-called excess parachute payments made to an executive after a change in control. Correspondingly, section 4999 imposes a 20% excise tax on the executive receiving excess parachute payments. Payments made to an executive as the result of a change in control are excess parachute payments if they equal or exceed the executive's base amount multiplied by three. If the payments equal or exceed that threshold, the 20% excise tax is imposed on payments exceeding the executive's base amount, and the employer's compensation deduction is forfeited on those same dollars. The executive's base amount is his five-year average taxable compensation. The additional tax gross-up benefit payable to Mr. Hecker would compensate him for federal excise taxes imposed as well as for federal and state income taxes imposed on the gross-up benefit itself, but the tax gross-up benefit would not be a deductible payment to Intermountain or Panhandle State Bank. For purposes of the calculation under sections 280G and 4999 of benefits payable after a change in control, the total benefits include severance payable under a severance or employment agreement, accelerated payment or accelerated vesting of benefits under compensation arrangements such as stock option plans and salary continuation agreements, and other benefits whose payment or vesting accelerates because of the change in control. Taking into account Mr. Hecker's potential change-in-control severance benefit under the employment agreement and the benefit payable under his Salary Continuation Agreement, Intermountain considers it possible that a portion of the benefits payable to Mr. Hecker after a change in control may constitute excess parachute payments, and therefore that a tax gross-up benefit could be payable to him. However, the precise amount of the excise tax gross-up benefit depends on the price paid by the acquiring company, the date when the change in control occurs, the executive's five-year average taxable compensation at that time, applicable federal and state tax rates, and other factors, including the discount rate employed at the time to determine the present value of accelerated benefits and the number of months remaining until the executive attains his normal retirement age.

Mr. Hecker's employment agreement provides that he is entitled to reimbursement of up to \$500,000 of legal fees if his employment agreement is challenged after a change in control, regardless of whether Mr. Hecker prevails in such dispute.

Lastly, the employment agreement prohibits Mr. Hecker from competing with Intermountain or Panhandle State Bank as a director, officer, shareholder, or otherwise during the term of his employment and for two years after termination of his employment. The prohibition against competition terminates immediately after a change in control occurs.

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The table below shows the maximum amounts that could be paid to Mr. Hecker under his agreement and (i) is based on the executive's salary at December 31, 2007; and (ii) assumes that a triggering event occurred on December 31, 2007.

	Termination /Change in Control Payments Under Employment Agreement		Termination /Change in Control Payments Under Salary Continuation Agreement and Split Dollar Agreement		
	Voluntary or Involuntary Termination (without cause)	Involuntary Termination (without cause) or constructive termination in connection with a CIC (2)	Payment Due to Death Prior to Age	Termination Due to Disability Prior to Age 60 (4)	Voluntary or Involuntary Termination (without cause) Due to CIC (5)
Base salary	\$416,000	\$ 416,000	\$1,110,000	\$ 46,628	\$460,475
Short-term bonus	0	166,400	0	0	0
280G Tax Gross-Up	0	0	406,365	0	0
Fair market values of accelerated equity vesting ⁽⁶⁾	515,466	515,466	515,466	515,466	515,466
Total	\$931,466	\$1,097,866	\$2,031,831	\$ 562,094	\$975,941

(1) Represents two times Mr. Hecker's average base salary, payable in a lump sum payment.

(2) Represents two times Mr. Hecker's average base salary and short-term bonus over the two years preceding termination, payable in a lump sum payment.

- (3) Represents amount payable to Mr. Hecker's beneficiaries under the Split Dollar Agreement in the event Mr. Hecker dies while still employed by the Company, payable in a lump sum payment.
- (4) Represents the amount payable each year for a 10-year period based on the accrual balance at December 31, 2007.
- (5) Represents the amount payable based on the accrual balance at December 31, 2007, payable in a lump sum payment.
- (6) For the purposes of this table, the fair market value of the accelerated vesting of equity awards is determined as being the difference between the December 31, 2007 closing price of our common stock and the exercise

price of the accelerated equity awards. It is possible that in the event of a change of control, the per share settlement stock price would be substantially higher than that used in this table.

Jerry Smith Employment Agreement

Mr. Smith serves as President of Panhandle State Bank under an employment agreement that was amended and restated effective January 1, 2008 to, among other things, incorporate and make such modifications as necessary to comply with Section 409A of the Code. The terms of Mr. Smith's agreement are essentially identical to those of Mr. Hecker's employment agreement. The term of Mr. Smith's employment agreement will automatically renew for a new three-year term on January 1, 2011, unless earlier canceled by the Board. The Compensation Committee set Mr. Smith's annual salary for 2008 at \$172,300. The agreement promises severance benefits and change-in-control severance benefits on the same terms and calculated in the same manner as Mr. Hecker's, a potential excise tax gross-up in connection with a change in control, and reimbursement of up to \$500,000 of legal fees if the employment agreement is challenged after a change in control. Mr. Smith's employment agreement includes a prohibition against competition identical to the prohibition in Mr. Hecker's agreement, but like Mr. Hecker's agreement the prohibition against competition would not apply after a change in control occurs.

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The table below shows the maximum amounts that could be paid to Mr. Smith under his agreement and (i) is based on the executive's salary at December 31, 2007; and (ii) assumes that a triggering event occurred on December 31, 2007.

	Termination /Change in Control		Termination /Change in Control Payments Under Salary Continuation Agreement and Split Dollar		
	Payments Under Employment Agreement	Involuntary Termination (without cause) or constructive termination in connection with a CIC	Payment Due to Death Prior to Age 60 (3)	Termination Due to Disability Prior to Age 60 (4)	Voluntary or Involuntary Termination (without cause) Due to CIC (5)
	(1)	(2)			
Base salary	\$341,287	\$341,287	\$ 834,000	\$ 44,385	\$453,594
Short-term bonus	0	135,321	0	0	0
Fair market values of accelerated equity vesting (7)	254,140	254,140	254,140	254,140	254,140
Total	\$595,427	\$730,748	\$1,088,140	\$ 298,525	\$707,734

(1) Represents two times Mr. Smith's average base salary, payable in a lump sum payment.

(2) Represents two times Mr. Smith's average base salary and short-term bonus over the two years preceding termination, payable in a lump sum payment.

- (3) Represents amount payable to Mr. Smith's beneficiaries under the Split Dollar Agreement in the event Mr. Smith dies while still employed by the Company, payable in a lump sum payment.
- (4) Represents the amount payable each year for a 10-year period based on the accrual balance at December 31, 2007.
- (5) Represents the amount payable based on the accrual balance at December 31, 2007, payable in a lump sum.
- (6) For the purposes of this table, the fair market value of the accelerated vesting of equity awards is determined as being the difference between the December 31, 2007 closing price of our common stock and the exercise price of the

accelerated equity awards. It is possible that in the event of a change of control, the per share settlement stock price would be substantially higher than that used in this table.

Executive Severance and Stock Bonus Purchase Agreements for Douglas Wright and John Nagel

Under the terms of Executive Severance Agreements, amended and restated effective January 1, 2008 (as to Mr. Wright's agreement) and December 27, 2007 (as to Mr. Nagel's agreement) to, among other things, incorporate and make such modifications as necessary to comply with Section 409A of the Code, each of Messrs. Wright and Nagel is entitled to severance if his employment terminates involuntarily (i) other than for cause, disability, retirement or death within 24 months after a change in control, (ii) within the period between the date of entering into a definitive agreement and the effective date of the change in control, or (iii) within 12 months before an agreement for a change in control is entered into, or if he terminates for good reason (as defined in the agreement). The severance payment would be an amount equal to twice the sum of his average annual base salary and short-term bonus over the two preceding years, payable on the later of the date employment is terminated, the effective date of the change in control, or the first day of the seventh month after the month employment is terminated. The agreements for Messrs. Wright and Nagel were amended to, among other things, incorporate and make such modifications as necessary to comply with Section 409A of the Code.

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Mr. Wright's Executive Severance Agreement further provides for a tax gross-up benefit if the aggregate benefits payable to Mr. Wright after a change in control are subject to excise taxes under sections 280G and 4999 of the Internal Revenue Code, payable under the same terms as described for Mr. Hecker and Mr. Smith. Mr. Wright's agreement also provides that he is entitled to reimbursement of up to \$300,000 of legal fees if his employment agreement is challenged after a change in control, regardless of whether Mr. Wright prevails in such dispute.

Under Mr. Nagel's Executive Severance Agreement, executive's severance benefit will be reduced as necessary to avoid application of sections 280G and 4999 of the Code. Mr. Nagel's agreement also provides that he is entitled to reimbursement of up to \$250,000 of legal fees if his employment agreement is challenged after a change in control, regardless of whether Mr. Nagel prevails in such dispute.

The table below shows the maximum amounts that could be paid to the Messrs. Wright and Nagel under their respective agreements. The following information is based on (i) the executive's salary at December 31, 2007; and (ii) assumes that a triggering event occurred on December 31, 2007.

Name	Termination in Connection with Change in Control (other than for cause, death, disability or retirement)			Total Payments to Executive (1)
	Salary (\$)	Short-Term Bonus (\$)	Equity Awards (\$)	
Douglas Wright	\$325,777	\$ 128,957	\$355,264	\$ 809,998
John Nagel	281,216	109,674	310,812	701,702

(1) Represents two times the average base pay and short term bonus over the years preceding termination, payable in a lump sum payment.

Pamela Rasmussen Executive Severance and Retention Bonus Agreements

In connection with the acquisition of Magic Valley Bank in 2004, the Company entered into an Employment Agreement with Pamela Rasmussen, who at that time was employed as the Vice President and Senior Operations Officer of Magic Valley Bank. The agreement became effective on November 2, 2004, the closing of the transaction, and had a term of two years. Since that time, Ms. Rasmussen was promoted to Executive Vice President and Chief Operating Officer of Intermountain and her agreement expired. On March 14, 2007, Intermountain entered into an Executive Severance Agreement with Ms. Rasmussen, which was subsequently amended and restated effective December 28, 2007 to, among other things, incorporate and make such modifications as necessary to comply with Section 409A of the Code. The terms of this agreement are identical in nature to the Executive Severance Agreement with Mr. Nagel, including a provision for reimbursement of up to \$250,000 of legal fees.

In August 2005, as amended September 2006, the Company has also entered into a Retention Bonus Agreement with Ms. Rasmussen that provides for a bonus in the amount of \$56,850, payable in five equal annual installments, beginning on August 15, 2005, and the remaining installments paid on each anniversary date of the first payment date, *providing*, Ms. Rasmussen is employed with the Company on the date the portion of the bonus is due and payable. However, in the event of a change in control, or if Ms. Rasmussen is terminated without cause, or because of death or

permanent disability, Ms. Rasmussen, or her estate in the event of death, will be entitled to continue to receive the annual bonus payments.

On March 14, 2007, the Company entered into a Stock Purchase Bonus Agreement with Ms. Rasmussen. Under the terms of this agreement, Ms. Rasmussen would be reimbursed up to \$200,000 payable over a ten year period, provided Ms. Rasmussen acquired shares of Intermountain common stock prior to November 30, 2007. This agreement was subsequently amended and restated to decrease the required total investment in Intermountain common stock to \$100,000. The bonus payable under this agreement remains at \$200,000.

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The table below shows the maximum amounts that could be paid to Ms. Rasmussen under the agreements described above. The following information is based on (i) the executive's salary at December 31, 2007; and (ii) assumes that a triggering event occurred on December 31, 2007.

Name	Termination in Connection with Change in Control (other than for cause, death, disability or retirement)			
	Salary	Short-Term Bonus	Equity Awards	Total Payments to Executive (1)
	(\$)	(\$)	(\$)	(\$)
Pamela Rasmussen	\$286,624	\$ 121,891	\$ 61,951	\$ 470,466

(1) Represents the two times average base salary and short term bonus over the two years preceding termination, payable in a lump sum payment.

Employee Benefit Plans

401(k) Savings Plan. Intermountain and Panhandle State Bank have a 401(k) Savings Plan (401(k) Plan) covering substantially all employees. An employee must be at least 18 years of age and have six months of service with Intermountain or Panhandle State Bank to be eligible for the 401(k) Plan (Effective Date). Under the 401(k) Plan, participants may defer a percentage of their compensation, the dollar amount of which may not exceed the limit as governed by law. At the direction of the Board of Directors, Intermountain may also elect to pay a discretionary matching contribution equal to a percentage of the amount of the salary deferral made by the participant. The 401(k) Plan provides that contributions made by the employee are 100% vested immediately upon the participant's Effective Date. Effective January 1, 2006, contributions made by the employer vest 50% in year one and 100% in year two.

A committee of Panhandle State Bank acts as the Plan Administrator of the 401(k) Plan. The general investment options are determined by the Plan's Administrative Committee.

**SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT**

The following tables set forth information as of February 15, 2008, regarding the shares of Intermountain common stock beneficially owned by (i) each person (other than executive officers or directors whose stock ownership is listed below), known by Intermountain to own beneficially more than 5% of Intermountain's common stock, (ii) each director of Intermountain, (iii) the Named Executive Officers, and (iv) all directors and executive officers of Intermountain as a group.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as noted below, to our knowledge, each holder has sole voting and investment power with respect to shares of Intermountain common stock listed as owned by such person or entity. The number of shares beneficially owned is based on the shares of our common stock outstanding on February 15, 2008. Share figures in the table below have been adjusted for all stock splits and stock dividends to date. Shares of our common stock subject to stock options that are currently exercisable or exercisable within 60 days of February 15, 2008 are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person, but are not treated

as outstanding for the purpose of computing the percentage ownership of any other person.

Principal Shareholders (5% Owners Exclusive of Directors and Officers)

Name and Address of Beneficial Owner	Number of Shares of Common Stock Owned	Percentage of Outstanding Common Stock
Wray D Farmin 11815 Waikiki Rd Spokane, WA 99218	454,321 ⁽¹⁾	5.5%
James Fenton Company, Inc P O Box 505 Dover, ID 83825	456,649 ⁽²⁾	5.5%

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- (1) The shares beneficially held by Mr. Farmin are owned by the Farmin Family LLP, of which Mr. Farmin is the general partner and has sole voting and dispositive power.
- (2) The number of shares beneficially held include 15,524 shares held in trust for the minor children of Julie Meyer, President of James Fenton Company Inc.; 1,089 shares held by Ms. Meyer and her spouse; and 12,640 shares held in trust for the minor children of Susan Kubiak, Vice President of James Fenton Company, Inc.

Directors and Named Executive Officers

Name and Position	Number of Shares of Common Stock Owned⁽¹⁾⁽²⁾	Percentage of Outstanding Common Stock
Directors		
John B. Parker, <i>Chairman</i>	112,643 ⁽³⁾	1.4%
James T. Diehl, <i>Vice Chairman</i>	227,449 ⁽⁴⁾	2.7%
	309,476 ⁽⁵⁾	3.7%

Curt Hecker, <i>Director, President and CEO of the Company and CEO of the Bank</i>		
Charles L. Bauer, <i>Director</i>	205,781 ⁽⁶⁾	2.5%
Ford Elsaesser, <i>Director</i>	110,181 ⁽⁷⁾	1.3%
Ronald Jones, <i>Director</i>	22,499 ⁽⁸⁾	*
Maggie Y. Lyons, <i>Director</i>	31,879 ⁽⁹⁾	*
Jim Patrick, <i>Director</i>	42,000 ⁽¹⁰⁾	*
Michael J. Romine, <i>Director</i>	529,464 ⁽¹¹⁾	6.4%
Jerry Smith, <i>Director, Executive Vice President of the Company and President of the Bank</i>	148,138 ⁽¹²⁾	1.8%
Barbara Strickfaden, <i>Director</i>	7,495 ⁽¹³⁾	*
Douglas P. Ward, <i>Director</i>	9,144 ⁽¹⁴⁾	*

(1) Includes shares subject to options that could be exercised within 60 days or April 15, 2008 as follows: 181 shares each for Mr. Parker and Ms. Lyons; 19,148 shares for each of Messrs. Diehl, Elsaesser, and Romine; 141,750 shares for Mr. Hecker; 16,583 shares for Mr. Smith; 5,082 shares for Ms. Strickfaden; 2,463 for Mr. Ward; and 3,811 shares each for Messrs. Jones and Patrick.

(2) Includes shares of restricted stock subject to vesting requirements as follows: 473 shares held by Messrs. Parker, Diehl, Bauer,

Elsaesser,
Romine and
Ward, and
Ms. Lyons and
Ms. Strickfaden;
351 shares held
by Messrs. Jones
and Patrick;
6,373 shares held
by Mr. Hecker;
and 4,719 shares
held by
Mr. Smith.

(3) Includes 53,900
shares held in the
Parker Family
LLC of which
Mr. Parker is
co-manager with
his spouse; 2,000
shares held in an
IRA for
Mr. Parker; and
41,123 shares
held jointly with
spouse.

(4) Includes 9,695
shares held
jointly with
spouse; 78 shares
held by spouse;
283 shares held
in an IRA for
spouse; 314
shares held in an
IRA for the
benefit of
Mr. Diehl; 7,168
shares held in a
trust for Erick
Joseph Diehl and
7,168 shares held
in a trust for Jess
Isaac Diehl, both
trusts of which
Mr. Diehl is a
co-conservator;
and 170,459
shares held in the

Diehl Family
LLC of which
Mr. Diehl is a
managing
member.

(5) Includes 143,459
shares held in the
Hecker Family
Trust; 17,182
shares held in an
IRA account for
the benefit of
Mr. Hecker; 356
shares held in a
custodial account
for son; and 356
shares held
jointly with son.

(6) Includes 94,791
shares held in the
Bauer Family
Trust; 59,316
shares held in
IRA accounts for
the benefit of
Mr. Bauer; and
51,201 shares
held in IRA
accounts for the
benefit of
Mr. Bauer's
spouse.

(7) Includes 2,195
shares held
jointly with
spouse; 2,944
shares held by
Mr. Elsaesser's
minor children
and daughter;
58,774 shares
held in a pension
fund trust for the
benefit of Mr.
Elsaesser; and
shares held in
pension fund
trusts of which

Mr. Elsaesser is trustee as follows: 6,055 shares for Joseph Jarzabek; 1,291 shares for Donna La Rue; 356 shares for Lois LaPointe; 77 shares for Sherylee Foster; 401 shares for Deborah Hillen; and 81 shares for the benefit of Darla Kuhman.

- (8) Includes 3,375 shares held jointly with spouse; 4,542 shares held in an IRA account for the benefit of Mr. Jones spouse; and 6,160 shares held in an IRA account for the benefit of Mr. Jones.
- (9) Includes 5,720 shares held jointly with spouse and 1,280 shares held in a profit sharing plan for the benefit of Ms. Lyons spouse.
- (10) Includes 28,214 shares held jointly with spouse; 220 shares held in an IRA account for the benefit of Mr. Patrick s

spouse; and
9,363 shares held
in IRA accounts
for the benefit of
Mr. Patrick.

- (11) Includes 1,179
shares held in the
Romine
Educational
Trust; 5,461
shares held by
Mr. Romine's
spouse; and
503,203 shares
held in the
Romine Family
LLC.

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(12) Includes 106,926 shares held in the Smith Family Trust; 2,512 shares held in custodial accounts for children; and 17,398 shares held in IRA accounts for the benefit of Mr. Smith.

(13) Includes 1,815 shares held in an IRA account for Ms. Strickfaden.

(14) Includes 6,083 shares held jointly with former spouse.

Officers

In addition to their stock ownership, the following table includes information with respect to the five year employment history of the executives listed below.

Name and Age	Position/Employment History	Number and Percentage of Outstanding Common Stock⁽¹⁾⁽²⁾⁽³⁾	
John Nagel, 57	EVP & Chief Credit Officer of Bank ⁽⁴⁾	57,695	*
Douglas Wright, 43	EVP & Chief Financial Officer ⁽⁵⁾	81,535	*
Pamela Rasmussen, 47	EVP & Chief Operating Officer ⁽⁶⁾	18,069	*
Dale Schuman, 49	SVP, Trust and Wealth Management ⁽⁷⁾	12,800	*
Officers & Directors as a Group (16 Individuals)		1,926,248	23.1%

(1) Includes shares subject to options exercisable within 60 days or April 15, 2008 as follows:
Mr. Nagel
39,689 shares;
Ms. Rasmussen
363 shares;
Mr. Wright

49,773 shares;
and 321,131
shares held by
officers and
directors as a
group.

- (2) Includes shares of restricted stock subject to forfeiture as follows:
Mr. Nagel 3,870 shares;
Ms. Rasmussen 4,689 shares;
Mr. Wright 4,535 shares; and
Mr. Schuman 1,650 shares.
- (3) Includes 1,298 shares that Mr. Wright holds jointly with his spouse; 13,017 shares held by Ms. Rasmussen in the Rasmussen Family Trust; and 11,150 shares held jointly by Mr. Shuman and his spouse.
- (4) Mr. Nagel joined the Company in 2001. Prior to that time he served as Credit Approval Officer at Washington Trust Bank from December 1999 to May 2001.
- (5) Mr. Wright joined the Company in 2002. Prior to

that time he served as Senior Vice President and Production Manager at Sterling Savings Bank from June 1996 to May 2002.

- (6) Ms. Rasmussen joined the Company in 2004 as Senior Vice President and Chief Operating Officer. In January 2006, Ms. Rasmussen was promoted to Executive Vice President and Chief Operating Officer. Prior to joining the Company, she was the Vice President of Operations and Cashier at Stockman Financial Corporation from March 2000 to April 2002, and the Operations Officer and Chief Financial Officer of Snake River Bancorp, Inc. (the former holding company of Magic Valley Bank) from April 2002 to November 2004.

- (7) Mr. Schuman joined the Company in

2006 as Senior Vice President and General Manager of the Trust and Wealth Management division.

Mr. Schuman is an attorney and prior to joining the Company, he practiced commercial, mergers and acquisitions, trust and probate law from 1986 to 1999, and worked as an executive manager for an investment management institution from 1999 to 2005.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transactions between Intermountain or its affiliates and related persons (including directors and executive officers of Intermountain and Panhandle State Bank, or their immediate families) must generally be approved by a majority of the disinterested members of the Board of Directors. A transaction between a related person shall be consummated only if the majority of the disinterested members of the Board approves or ratifies such transaction in accordance with the procedures established by the Board in accordance with its lending and Corporate Governance Policy, and if the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party.

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Intermountain and Panhandle State Bank have had, and expect to have in the future, banking transactions, including loans, in the ordinary course of business with directors, executive officers, and their associates, on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons, which transactions do not involve more than the normal risk of collectibility or present other unfavorable features.

Ronald Jones and Jim Patrick, the two directors of Intermountain who joined the boards of Intermountain and Panhandle State Bank in connection with the Snake River Bancorp, Inc. acquisition, and Pamela Rasmussen, the Executive Vice President and Chief Operating Officer of Panhandle State Bank, are members of the Perrine Partnership, LLC. Perrine Partnership, LLC, of which ten of the twelve former directors of Snake River are members, owned the main office building of Magic Valley Bank (now a division of Panhandle State Bank) located at 113 Main Avenue West, Twin Falls, Idaho. In connection with the Snake River Bancorp acquisition, the Perrine Partnership, LLC lease was amended to grant Intermountain a two-year option to acquire the property for \$2.5 million. On November 15, 2006, Intermountain extended its option to purchase the property by entering into an Option Agreement with the Perrine Partnership, LLC. The Board of Intermountain subsequently decided to sell its two Magic Valley Bank properties and lease back the premises of the branches. As a result, Intermountain determined not to proceed with its exercise of the option to purchase the Twin Falls property of Magic Valley, but rather to assign the option to the purchaser of the two Magic Valley properties, an independent third party, for no consideration, under the terms of a Real Estate Purchase Agreement dated December 14, 2006 between the purchaser and Panhandle State Bank. The transaction closed January 5, 2007, and Panhandle simultaneously entered into three separate 20-year Commercial Lease Agreements with the purchaser to lease back the three Magic Valley Bank properties. Pursuant to the terms of those agreements, during 2007 Magic Valley Bank paid monthly rent in an aggregate of \$30,212. Neither Mr. Jones, Mr. Patrick nor Ms. Rasmussen were involved in the negotiations regarding the transaction; neither Mr. Jones or Mr. Patrick voted on such matter as a Board member of Intermountain; nor did either of them receive any compensation from Intermountain or Panhandle State Bank in connection with this transaction. The total value received by the Perrine Partnership, LLC for the property was \$2,500,000, of which Mr. Jones received \$110,000, Mr. Patrick received \$220,000 and Ms. Rasmussen received \$110,000. In January 2007, payments of \$3,376 to both Mr. Jones and Ms. Rasmussen, and \$6,752 to Mr. Patrick were received and represented the final payment of the transaction proceeds.

PROPOSAL NO. 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors has appointed BDO Seidman, LLP (BDO) to serve as the independent registered public accounting firm for Intermountain and its subsidiaries for the year ending December 31, 2008, and any interim periods, subject to ratification by our shareholders at the annual meeting. BDO has advised Intermountain that it will have in attendance at the annual meeting one or more representatives who will be available to respond to appropriate questions presented at the annual meeting. Such representatives will have an opportunity to make a statement at the annual meeting if they desire to do so. If the required number of votes does not ratify the appointment of BDO, the Board will review its future selection of independent registered public accountants.

Vote Required and Board Recommendation

The proposal for the shareholders to ratify the selection of BDO as our independent registered public accounting firm requires the affirmative vote FOR of a majority of the shares present and entitled to vote on the amendment.

The Board of Directors unanimously recommends that Shareholders vote **FOR** the proposal to ratify the appointment of BDO as the independent auditors for Intermountain for 2008.

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PROPOSAL NO. 3 SHAREHOLDER PROPOSAL REGARDING ANNUAL ELECTION OF ALL DIRECTORS RESOLUTION

That the shareholders of INTERMOUNTAIN COMMUNITY BANCORP request its Board of Directors to take the steps necessary to eliminate classification of terms of its Board of Directors to require that all Directors stand for election annually. The Board declassification shall be completed in a manner that does not affect the unexpired terms of the previously-elected Directors.

STATEMENT

The proponent believes the election of directors is the strongest way that shareholders influence the directors of any corporation. Currently, our board of directors is divided into three classes with each class serving three-year terms. Because of this structure, shareholders may only vote for one-third of the directors each year. This is not in the best interest of shareholders because it reduces accountability.

U.S. Bancorp, Associated Banc-Corp, Piper-Jaffray Companies, Fifth-Third Bancorp, Pan Pacific Retail Properties, Qwest Communications International, Xcel Energy, Greater Bay Bancorp, North Valley Bancorp, Pacific Continental Corporation, Regions Financial Corporation, CoBiz Financial Inc., Marshall & Illsley Corporation, and Wintrust Financial, Inc. are among the corporations electing directors annually because of the efforts of the proponent.

The performance of our management and our Board of Directors is now being more strongly tested due to economic conditions and the accountability for performance must be given to the shareholders whose capital has been entrusted in the form of share investments.

A study by researchers at Harvard Business School and the University of Pennsylvania's Wharton School titled *Corporate Governance and Equity Prices* (Quarterly Journal of Economics, February, 2003), looked at the relationship between corporate governance practices (including classified boards) and firm performance. The study found a significant positive link between governance practices favoring shareholders (such as annual directors election) and firm value.

While management may argue that directors need and deserve continuity, management should become aware that continuity and tenure may be best assured when their performance as directors is exemplary and is deemed beneficial to the best interests of the corporation and its shareholders.

The proponent regards as unfounded the concern expressed by some that annual election of all directors could leave companies without experienced directors in the event that all incumbents are voted out by shareholders. In the unlikely event that shareholders do vote to replace all directors, such a decision would express dissatisfaction with the incumbent directors and reflect a need for change.

If you agree that shareholders may benefit from greater accountability afforded by annual election of all directors, please vote **FOR** this proposal.

Gerald R. Armstrong, 820 Sixteenth Street, No. 705, Denver, CO 80202-3227; (303) 355-1199, owning 297 shares of IMCB common stock.

BOARD OF DIRECTORS RESPONSE

THE BOARD OF DIRECTORS OPPOSES THE PROPOSED RESOLUTION AND UNANIMOUSLY RECOMMENDS A VOTE AGAINST ITEM 3 FOR THE FOLLOWING REASONS:

Intermountain's current process of electing directors by classes has been in effect since 1997. Under this process, as provided in the Company's Articles of Incorporation, approximately one-third of the directors are elected annually by shareholders, and the entire Board can be replaced in the course of three annual meetings. The Board of Directors believes that the staggered board serves the shareholders well for several reasons.

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The three-year staggered terms are designed to provide continuity and stability of leadership and policy because a majority of the directors at any given time will have prior experience as directors of the Company. Directors who have a solid knowledge of the Company and its historical roots, a broader perspective on its operations, and a better understanding of its future plans and opportunities are a valuable resource and are better positioned to make the fundamental decisions that are best for the Company and its shareholders. This structure further enables the directors to build on past experience for more effective long-term strategic planning.

Directors elected for staggered terms are equally accountable to shareholders as directors elected annually. The Company's staggered Board reduces the vulnerability of the Company to certain potentially abusive takeover tactics and encourages potential acquirers to initiate arms-length negotiations with management and seasoned directors. Because only one-third of the directors are elected at any annual meeting of shareholders, it is impossible to elect an entire new Board or even a majority of the Board at a single meeting. Incumbent directors always represent a majority of the Board and are in a position to negotiate with the proponent of the change while protecting the interests of all shareholders.

Approval of this proposal would not automatically result in a change to the Board structure. Under Idaho law, to change the structure of the Company's Board of Directors, the Board must first authorize an amendment to the Company's Articles of Incorporation. The shareholders would then have to approve that amendment with an affirmative vote of two-thirds of the Company's outstanding shares of common stock.

Intermountain will continue to follow this issue closely. Considering the growth of the Company, the challenges of the current economy, and increasingly complicated compliance requirements requiring board oversight, we feel it is in the best interests of the shareholders to retain a staggered board at this time.

The Board believes that a staggered board is appropriate for the Company at this time and will serve to protect shareholders' interests.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE AGAINST PROPOSAL 3.
COMPLIANCE WITH SECTION 16(a) FILING REQUIREMENTS**

Section 16(a) of the Securities Exchange Act of 1934 requires that all of our executive officers and directors and all persons who beneficially own more than 10 percent of our common stock file reports with the SEC regarding beneficial ownership of Company stock. We have adopted procedures to assist our directors and executive officers in complying with the Section 16(a) filings.

Based solely on our review of the copies of the filings which we received for the fiscal year ended December 31, 2007, or written representations from certain reporting persons, we believe that the reporting persons made all filings required by Section 16(a) on a timely basis, except Dale Schuman who was one day late in filing a Form 4 to report a purchase of IMCB shares.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO Seidman, LLP, independent registered public accounting firm, performed the audit of our consolidated financial statements, which include our subsidiary Panhandle State Bank, for the year ended December 31, 2007. In addition, the effectiveness of Intermountain's internal control over financial reporting as of December 31, 2007 has been attested to by BDO Seidman, LLP.

Fees Paid to Independent Registered Public Accounting Firm

The following table sets forth the aggregate fees charged to Intermountain by BDO, for audit services rendered in connection with the audited consolidated financial statements and reports for the 2007 and 2006 fiscal years and for other services rendered during the 2007 and 2006 fiscal years.

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Fee Category	Fiscal 2007	% of Total	Fiscal 2006	% of Total
Audit Fees	\$ 360,324	86%	\$ 413,710	93%
Audit-Related Fees	18,313	4	12,400	3%
Tax Fees	39,165	10	19,850	4%
All Other Fees	0	0	0	0%
Total Fees	\$ 417,802	100%	\$ 445,960	100%

Audit Fees. Consists of fees billed to Intermountain for professional services rendered by BDO in connection with the audit of our financial statements and review of financial statements included in Intermountain's Form 10-Qs and 10-Ks, fees for services performed in relation to compliance with Sarbanes Oxley Rule 404, or services by BDO in connection with statutory or regulatory filings or engagements.

Audit-Related Fees. Consists of fees relating to the audit of the employee benefit plan.

Tax Fees. Consists of fees related to the preparation of Intermountain's consolidated federal and state tax returns and tax consulting services.

All Other Fees. We did not incur any other fees during 2007.

In considering the nature of the services provided by BDO, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with BDO and Company management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes Act, as well as the American Institute of Certified Public Accountants.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services, compliance services, consulting services and other services. For each proposed service, the independent auditor is required to provide detailed back-up documentation at the time of approval. The Audit Committee may delegate pre-approval to its chairman or one or more of its members. Such a member must report any decisions to the Audit Committee at the next scheduled meeting.

OTHER BUSINESS

The Board knows of no other matters to be brought before the shareholders at the annual meeting. If other matters are properly presented for a vote at the annual meeting, the proxy holders will vote shares represented by properly executed proxies in their discretion in accordance with their judgment on such matters.

SHAREHOLDER PROPOSALS AND DIRECTOR NOMINATIONS

Shareholder Proposals

In order for a shareholder proposal to be considered for inclusion in our Proxy Statement for next year's annual meeting, the written proposal must be received by us no later than November 24, 2008 and should contain such information as required under our Bylaws. Such proposals need to comply with the SEC's regulations regarding the inclusion of shareholder proposals in company-sponsored proxy materials. No shareholder proposal from the floor will be considered at the annual meeting. In addition, if we receive notice of a shareholder proposal after February 7, 2009, the persons named as proxies in such proxy statement and form of proxy will have discretionary authority to vote on such shareholder proposal.

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Director Nominations

Our Bylaws provide for the nomination of director candidates by Company shareholders. In order to recommend that the Nominating Committee consider a person for inclusion as a director nominee in our proxy statement for next year's annual meeting, we must receive a recommendation no later than November 24, 2008. In addition, the notice of recommendation must meet all other requirements contained in our Bylaws. Such recommendation should be sent to the attention of the Secretary of the Company, and should contain the following information: (a) the name and address of each proposed nominee and the number of shares of Intermountain stock held by such nominee; (b) the principal occupation of each proposed nominee; (c) a description of any arrangements or understandings between the nominee and the nominating shareholder pursuant to which the nomination is being made; (d) your name and address; (e) the number of shares of stock of Intermountain you own; and (f) a consent of the nominee agreeing to the nomination. The presiding officer of the meeting may disregard your nomination if it does not contain the above information and otherwise meet the requirements set forth in our Bylaws.

Copy of Bylaw Provisions

You may contact our Corporate Secretary for a copy of the relevant Bylaw provisions regarding the requirements for making shareholder proposals and nominating director candidates.

ANNUAL REPORT TO SHAREHOLDERS

Any shareholder may obtain without charge a copy of our Annual Report on Form 10-K filed with the SEC under the Securities Exchange Act of 1934 for the year ended December 31, 2007, including financial statements. Written requests for the Form 10-K should be addressed to Susan Pleasant, Asst. Vice President, Shareholder Relations, P. O. Box 967, Sandpoint, Idaho 83864.

Barbara
Stickfaden

- o **FOR ALL EXCEPT**
(See instructions below)

4. WHATEVER OTHER BUSINESS as may properly be brought before the Annual Meeting or any adjournment thereof.

YOUR SHARES WILL BE VOTED IN ACCORDANCE WITH YOUR INSTRUCTIONS. IF A VOTE IS NOT SPECIFIED, THE PROXIES WILL VOTE FOR PROPOSALS 1 AND 2 AND AGAINST PROPOSAL 3.

INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: =

Management knows of no other matters that may properly be, or which are likely to be, brought before the Annual Meeting. However, if any other matters are properly presented at the Annual Meeting, this Proxy will be voted in accordance with the recommendations of management.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder

Date:

Signature of Stockholder

Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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**INTERMOUNTAIN COMMUNITY BANCORP
PROXY
PLEASE SIGN AND RETURN IMMEDIATELY
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Ford Elsaesser, John B. Parker and Michael J. Romine, and each of them (with full power to act alone), my Proxies, with full power of substitution as Proxy, and hereby authorizes Messrs. Elsaesser, Parker and Romine to represent and to vote, as designated below, all the shares of common stock of Intermountain Community Bancorp held of record by the undersigned on February 27, 2008, at the Annual Meeting of Shareholders to be held on April 23, 2008, or any adjournment of such Annual Meeting.

(Continued and to be signed on the reverse side)

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