INTERMOUNTAIN COMMUNITY BANCORP
Form 10-Q
May 13, 2013
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2013
OR

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
COMMISSION FILE NUMBER 000-50667
INTERMOUNTAIN COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

Idaho	82-0499463
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

414 Church Street, Sandpoint, ID 83864
(Address of principal executive offices) (Zip code)
Registrant's telephone number, including area code:
(208) 263-0505

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
The number of shares outstanding of the registrant's Voting Common Stock, no par value per share, as of May 8, 2013 was 2,603,606 and the number of shares of Non-Voting Common Stock, no par value per share, was 3,839,688.

Table of Contents

Intermountain Community Bancorp
FORM 10-Q
For the Quarter Ended March 31, 2013
TABLE OF CONTENTS

PART I — Financial Information	
Item 1 — Financial Statements (Unaudited)	
Consolidated Balance Sheets for March 31, 2013 and December 31, 2012	3
Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012	4
Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012	6
Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2013 and 2012	5
Notes to Consolidated Financial Statements	7
Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3 — Quantitative and Qualitative Disclosures About Market Risk	48
Item 4 — Controls and Procedures	48
PART II — Other Information	
Item 1 — Legal Proceedings	48
Item 1A — Risk Factors	48
Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds	49
Item 3 — Defaults Upon Senior Securities	50
Item 4 —Mine Safety Disclosure	50
Item 5 — Other Information	50
Item 6 — Exhibits	50
Signatures	50
EX-3.1 Amended and Restated Articles of Incorporation	
EX-31.1	
EX-31.2	
EX-32	
EX-101	

Table of Contents

PART I — Financial Information
Item - 1 Financial Statements
Intermountain Community Bancorp
Consolidated Balance Sheets
(Unaudited)

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents:		
Interest-bearing	$45,897	$53,403
Non-interest bearing and vault	4,074	13,536
Restricted cash	12,279	13,146
Available-for-sale securities, at fair value	282,769	280,169
Held-to-maturity securities, at amortized cost	14,795	14,826
Federal Home Loan Bank (“FHLB”) of Seattle stock, at cost	2,249	2,269
Loans held for sale	2,023	1,684
Loans receivable, net	498,754	520,768
Accrued interest receivable	4,051	4,320
Office properties and equipment, net	35,231	35,453
Bank-owned life insurance ("BOLI")	9,556	9,472
Other real estate owned (“OREO”)	4,664	4,951
Prepaid expenses and other assets	17,538	18,142
Total assets	$933,880	$972,139
LIABILITIES		
Deposits	$719,467	$748,934
Securities sold subject to repurchase agreements	66,157	76,738
Advances from Federal Home Loan Bank	4,000	4,000
Unexercised stock warrant liability	772	828
Cashier checks issued and payable	2,767	2,024
Accrued interest payable	337	1,185
Other borrowings	16,527	16,527
Accrued expenses and other liabilities	7,942	7,469
Total liabilities	817,969	857,705
STOCKHOLDERS’ EQUITY		
Common stock 30,000,000 shares authorized; 2,603,606 and 2,603,674 shares issued and 2,603,606,and 2,603,131 shares outstanding as of March 31, 2013 and December 31, 2012, respectively	96,358	96,368
Common stock - non-voting 10,000,000 shares authorized; 3,839,688 and 3,839,688 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	31,941	31,941
Preferred stock, Series A, 27,000 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively; liquidation preference of $1,000 per share	26,648	26,527
Accumulated other comprehensive income, net of tax	3,829	3,529
Accumulated deficit	(42,865)	(43,931)
Total stockholders’ equity	115,911	114,434
Total liabilities and stockholders’ equity	$933,880	$972,139

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

Intermountain Community Bancorp
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31, 2013	2012
	(Dollars in thousands, except per share data)	
Interest income:		
Loans	$6,710	$7,071
Investments	1,593	2,049
Total interest income	8,303	9,120
Interest expense:		
Deposits	561	822
Other borrowings	424	676
Total interest expense	985	1,498
Net interest income	7,318	7,622
Provision for losses on loans	(179)	(959)
Net interest income after provision for losses on loans	7,139	6,663
Other income:		
Fees and service charges	1,675	1,602
Loan related fee income	567	605
Net gain on sale of securities	40	585
Net gain (loss) on sale of other assets	4	4
Other-than-temporary impairment (“OTTI”) losses on investments (1)	(42)	(271)
Bank-owned life insurance	84	87
Fair value adjustment on cash flow hedge	67	(384)
Unexercised warrant liability fair value adjustment	56	—
Other	113	208
Total other income	2,564	2,436
Operating expenses:		
Salaries and employee benefits	4,175	4,136
Occupancy expense	1,524	1,684
Advertising	114	112
Fees and service charges	617	622
Printing, postage and supplies	217	300
Legal and accounting	340	350
FDIC assessment	186	313
OREO operations	111	104
Other expenses	894	677
Total operating expenses	8,178	8,298
Net income before income taxes	1,525	801
Income tax benefit	—	—
Net income	1,525	801
Preferred stock dividend	458	466
Net income applicable to common stockholders	$1,067	$335
Earnings per share — basic	$0.17	$0.08
Earnings per share — diluted	$0.16	$0.08
Weighted average common shares outstanding — basic	6,442,988	4,427,831

Weighted average common shares outstanding — diluted	6,480,024	4,442,673

(1) Consisting of $0 and $7 of total other-than-temporary impairment net losses, net of $(42), and $(264) recognized in other comprehensive income, for the three months ended March 31, 2013 and March 31, 2012, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

Intermountain Community Bancorp
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(Dollars in thousands)	
Net income	$1,525	$801
Other comprehensive income:		
Change in unrealized gains on investments, and mortgage backed securities (“MBS”) available for sale, excluding non-credit loss on impairment of securities	495	(731)
Realized net gains reclassified from other comprehensive income	(40)	(585)
Non-credit loss on impairment on available-for-sale debt securities	42	263
Less deferred income tax benefit (provision) on securities	(197)	417
Change in fair value of qualifying cash flow hedge, net of tax	—	330
Net other comprehensive income (loss)	300	(306)
Comprehensive income	$1,825	$495

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

Intermountain Community Bancorp
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31, 2013	2012
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$1,525	$801
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	605	676
Stock-based compensation expense	13	30
Net amortization of premiums on securities	1,697	1,075
Provisions for losses on loans	179	959
Amortization of core deposit intangibles	17	29
(Gain) on sale of loans, investments, property and equipment	(369)	(973)
Impact of hedge dedesignation and current fair value adjustment	69	458
OTTI credit loss on available-for-sale investments	42	271
OREO valuation adjustments	26	(20)
Accretion of deferred gain on sale of branch property	(4)	(4)
Net accretion of loan and deposit discounts and premiums	(3)	(3)
Increase in cash surrender value of bank-owned life insurance	(84)	(87)
Change in value of stock warrants	(56)	—
Change in:		
Accrued interest receivable	269	(8)
Prepaid expenses and other assets	366	1,869
Accrued interest payable and other liabilities	(440)	1,301
Accrued expenses and other cashiers checks	743	(125)
Proceeds from sale of loans originated for sale	13,711	18,242
Loans originated for sale	(13,721)	(16,465)
Net cash provided by operating activities	4,585	8,026
Cash flows from investing activities:		
Proceeds from redemption of FHLB Stock	21	—
Purchases of available-for-sale securities	(23,575)	(62,360)
Proceeds from sales, calls or maturities of available-for-sale securities	2,003	1,233
Principal payments on mortgage-backed securities	17,778	12,190
Proceeds from sales, calls or maturities of held-to-maturity securities	24	2,967
Origination of loans, net principal payments	21,444	7,694
Purchase of office properties and equipment	(384)	(144)
Proceeds from sale of other real estate owned	656	439
Net change in restricted cash	868	(9,893)
Net cash provided by (used in) investing activities	18,835	(47,874)
Cash flows from financing activities:		
Proceeds from issuance of series B preferred stock, gross	—	32,460
Proceeds from issuance of common stock, gross	—	13,832
Proceeds from issuance of warrant, gross	—	1,007
Capital issuance costs	—	(5,042)
Net change in demand, money market and savings deposits	(16,214)	8,431
Net change in certificates of deposit	(13,253)	(15,846)

Net change in repurchase agreements	(10,581)	(21,469)
Retirement of treasury stock	(1)	—
Payment of preferred stock dividend	(338)	—
Net cash provided by (used in) financing activities	(40,387)	13,373
Net change in cash and cash equivalents	(16,967)	(26,475)
Cash and cash equivalents, beginning of period	66,938	107,199
Cash and cash equivalents, end of period	$49,971	$80,724
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$1,833	$1,655
Income taxes, net of tax refunds received	$—	$8
Noncash investing and financing activities:		
Loans converted to other real estate owned	$394	$620
Accrual of preferred stock dividend	$—	$374

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

Intermountain Community Bancorp
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation:
The foregoing unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented.
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of Intermountain Community Bancorp's ("Intermountain's" or "the Company's") consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of Intermountain's consolidated financial position and results of operations.
During the fourth quarter of 2012, IMCB identified a misstatement related to the elimination of cash deposited by the parent company with the subsidiary bank. The misstatement increased the unrestricted cash and deposit balances in the Consolidated Balance Sheet and the amount of cash received from financing activities reported in the Consolidated Statement of Cash Flows for the quarters ended March 31, June 30 and September 30, 2012. In accordance with the SEC Staff Accounting Bulletin (SAB) No. 99, "Materiality," and SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," management evaluated the materiality of the error from qualitative and quantitative perspectives and concluded that the error was immaterial to these prior interim periods. Consequently, the Consolidated Balance Sheet and Consolidated Statement of Cash Flows contained in this Report have been revised for the three months ended March 31, 2012. This change resulted in a corresponding decrease of $9.5 million from non-interest bearing and vault cash and deposit liabilities on the balance sheet and from cash flows from financing activities on the statement of cash flows. This change did not affect net income or shareholders' equity for any period.

2. Cash & Cash Equivalents:
The balances of the Company's cash and cash equivalents are as follows (in thousands):

	3/31/2013 Balance	12/31/2012 Balance
Unrestricted interest-bearing cash and cash equivalents	$45,897	$53,403
Unrestricted non interest-bearing and vault cash	$4,074	$13,536
Restricted non-interest bearing cash	$12,279	$13,146

In March 2013 and December 31, 2012, unrestricted interest bearing cash was deposited at the Federal Reserve ("FRB") and Federal Home Loan Bank of Seattle ("FHLB"). Unrestricted non-interest bearing cash includes overnight cash deposited at several of the Company's correspondent banks and balances kept in the vaults of its various offices.
At March 31, 2013 restricted non-interest bearing cash consisted of the following:

- $1.1 million in reserve balances to meet FRB reserve requirements;
- $572,000 pledged to various correspondent banks to secure interest rate swap transactions and foreign currency exchange lines;

- $1.1 million held at the Company's subsidiary Bank to be used for future tenant improvements of the Sandpoint Center, as required by the agreement executed to sell the Sandpoint Center in 2009;
- $9.5 million held at the Company's subsidiary Bank as required by an intercompany agreement signed by the Company and the Bank as part of the Company's January 2012 capital raise, which represents a pledge of funds to the Bank to partially secure the loan made by the Bank to the third party who bought and subsequently leased the Sandpoint Center back to the Bank.

Table of Contents

At December 31, 2012, restricted cash consisted of $1.1 million to meet FRB reserve requirements, $572,000 to secure interest swap transactions, $877,000 deposited in escrow for the payment of deferred interest on the Company's Trust II debenture and foreign currency exchange lines, $1.1 million to fund future tenant improvements at the Sandpoint Center, and $9.5 million as required by the intercompany agreement discussed above.

3. Investments:

The amortized cost and fair values of investments are as follows (in thousands):

	Available-for-Sale				
	Amortized Cost	Cumulative Non-Credit OTTI (Losses) Recognized in OCI	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value/ Carrying Value
March 31, 2013					
State and municipal securities	$64,063	$—	$3,039	$(252)	$66,850
Mortgage-backed securities - Agency Pass Throughs	69,212	—	2,109	(556)	70,765
Mortgage-backed securities - Agency CMO's	109,154	—	2,260	(247)	111,167
SBA Pools	25,293	—	519	(45)	25,767
Mortgage-backed securities - Non Agency CMO's (below investment grade)	8,719	(885)	592	(206)	8,220
	$276,441	$(885)	$8,519	$(1,306)	$282,769
December 31, 2012					
State and municipal securities	$60,984	$—	$2,823	$(158)	$63,649
Mortgage-backed securities - Agency Pass Throughs	71,821	—	2,224	(652)	73,393
Mortgage-backed securities - Agency CMO's	110,683	—	2,209	(328)	112,564
SBA Pools	19,962	—	359	—	20,321
Mortgage-backed securities - Non Agency CMO's (below investment grade)	10,889	(1,661)	1,401	(387)	10,242
	$274,339	$(1,661)	$9,016	$(1,525)	$280,169

	Held-to-Maturity				
	Carrying Value / Amortized Cost	Cumulative Non-Credit OTTI (Losses) Recognized in OCI	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2013					
State and municipal securities	$14,795	$—	$1,496	$—	$16,291
December 31, 2012					
State and municipal securities	$14,826	$—	$1,518	$—	$16,344

The following table summarizes the duration of Intermountain’s unrealized losses on available-for-sale and held-to-maturity securities as of the dates indicated (in thousands).

8

Table of Contents

	Less Than 12 Months		12 Months or Longer		Total	
March 31, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-back securities	$55,301	$(464)	$19,367	$(545)	$74,668	$(1,009)
SBA Pools	4,487	(45)	—	—	4,487	(45)
State and municipal securities	11,494	(252)	—	—	11,494	(252)
Total	$71,282	$(761)	$19,367	$(545)	$90,649	$(1,306)

	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2012	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-back securities	$57,180	$(785)	$11,408	$(582)	$68,588	$(1,367)
State and municipal securities	12,019	(158)	—	—	12,019	(158)
Total	$69,199	$(943)	$11,408	$(582)	$80,607	$(1,525)

At March 31, 2013, the amortized cost and fair value of available-for-sale and held-to-maturity debt securities, by contractual maturity, are as follows (in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$—	$—	$508	$515
After one year through five years	3,580	3,734	1,839	1,956
After five years through ten years	12,145	11,988	10,941	12,049
After ten years	48,338	51,128	1,507	1,771
Subtotal	64,063	66,850	14,795	16,291
Mortgage-backed securities	187,085	190,152	—	—
SBA Pools	25,293	25,767	—	—
Total Securities	$276,441	$282,769	$14,795	$16,291

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Intermountain’s investment portfolios are managed to provide and maintain liquidity; to maintain a balance of high quality, diversified investments to minimize risk; to offset other asset portfolio elements in managing interest rate risk; to provide collateral for pledging; and to maximize returns. At March 31, 2013, the Company does not intend to sell any of its available-for-sale securities that have a loss position and it is not likely that it will be required to sell the available-for-sale securities before the anticipated recovery of their remaining amortized cost or maturity date. The unrealized losses on residential mortgage-backed securities without other-than-temporary impairment (“OTTI”) were considered by management to be temporary in nature.

The following table presents the OTTI losses for the three months ended March 31, 2013 and March 31, 2012:

	2013		2012	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total other-than-temporary impairment losses	$—	$—	$—	$7
Portion of other-than-temporary impairment losses transferred from (recognized in) other comprehensive income (1)	—	42	—	264

Net impairment losses recognized in earnings (2)	$—	$42	$—	$271

(1) Represents other-than-temporary impairment losses related to all other factors.

9

Table of Contents

(2) Represents other-than-temporary impairment losses related to credit losses.

The OTTI recognized on investment securities available for sale in 2013 relates to one non-agency collateralized mortgage obligation. Another security for which OTTI had been recognized in 2012 was sold in the first quarter of 2013. Each of these securities held various levels of credit subordination. These securities were valued by third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. We estimated the cash flows of the underlying collateral for each security considering credit, interest and prepayment risk models that incorporate management's estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as underlying loan interest rates, geographic location, borrower characteristics, vintage, and historical experience. We then used a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows were then discounted at the interest rate equal to the yield anticipated at the time the security was purchased. We review the actual collateral performance of these securities on a quarterly basis and update the inputs as appropriate to determine the projected cash flows.

See Note 10 "Fair Value of Financial Instruments" for more information on the calculation of fair or carrying value for the investment securities.

4. Loans and Allowance for Loan Losses:

The components of loans receivable are as follows (in thousands):

	March 31, 2013			
	Loans Receivable	%	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial	$111,968	22.1 %	$3,467	$108,501
Commercial real estate	183,796	36.3	4,979	178,817
Commercial construction	8,068	1.6	—	8,068
Land and land development loans	31,673	6.2	1,955	29,718
Agriculture	80,854	16.0	2,543	78,311
Multifamily	15,946	3.1	—	15,946
Residential real estate	57,645	11.4	2,339	55,306
Residential construction	1,318	0.3	—	1,318
Consumer	8,909	1.8	187	8,722
Municipal	6,151	1.2	—	6,151
Total loans receivable	506,328	100.0 %	$15,470	$490,858
Allowance for loan losses	(7,678)			
Deferred loan fees, net of direct origination costs	104			
Loans receivable, net	$498,754			
Weighted average interest rate	5.28 %			

Table of Contents

	December 31, 2012			
	Loans Receivable	%	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial	$121,307	23.0 %	$6,133	$115,174
Commercial real estate	186,844	35.4	3,373	183,471
Commercial construction	3,832	0.7	—	3,832
Land and land development loans	31,278	5.9	2,023	29,255
Agriculture	85,967	16.3	2,134	83,833
Multifamily	16,544	3.1	—	16,544
Residential real estate	60,020	11.3	2,362	57,658
Residential construction	940	0.2	—	940
Consumer	9,626	1.8	168	9,458
Municipal	12,267	2.3	—	12,267
Total loans receivable	528,625	100.0 %	$16,193	$512,432
Allowance for loan losses	(7,943)			
Deferred loan fees, net of direct origination costs	86			
Loans receivable, net	$520,768			
Weighted average interest rate	5.28 %			

The components of the allowance for loan loss by types are as follows (in thousands):

	March 31, 2013		
	Total Allowance	Individually Evaluated Allowance	Collectively Evaluated Allowance
Commercial	$1,763	$210	$1,553
Commercial real estate	2,814	301	2,513
Commercial construction	217	—	217
Land and land development loans	1,210	142	1,068
Agriculture	241	10	231
Multifamily	55	—	55
Residential real estate	1,103	418	685
Residential construction	35	—	35
Consumer	206	114	92
Municipal	34	—	34
Total	$7,678	$1,195	$6,483

Table of Contents

	December 31, 2012		
	Total Allowance	Individually Evaluated Allowance	Collectively Evaluated Allowance
Commercial	$2,156	$628	$1,528
Commercial real estate	2,762	267	2,495
Commercial construction	101	—	101
Land and land development loans	1,197	114	1,083
Agriculture	228	10	218
Multifamily	51	—	51
Residential real estate	1,144	458	686
Residential construction	24	—	24
Consumer	202	87	115
Municipal	78	—	78
Total	$7,943	$1,564	$6,379

A summary of current, past due and nonaccrual loans as of March 31, 2013 is as follows, (in thousands):

	Current	30-89 Days Past Due	90 Days or More Past Due and Accruing	Nonaccrual	Total
Commercial	$110,275	$120	$—	$1,573	$111,968
Commercial real estate	180,809	93	—	2,894	183,796
Commercial construction	8,068	—	—	—	8,068
Land and land development loans	31,410	59	—	204	31,673
Agriculture	80,578	—	—	276	80,854
Multifamily	15,946	—	—	—	15,946
Residential real estate	57,081	378	—	186	57,645
Residential construction	1,318	—	—	—	1,318
Consumer	8,874	31	—	4	8,909
Municipal	6,151	—	—	—	6,151
Total	$500,510	$681	$—	$5,137	$506,328

A summary of current, past due and nonaccrual loans as of December 31, 2012 is as follows, (in thousands):

	Current	30-89 Days Past Due	90 Days or More Past Due and Accruing	Nonaccrual	Total
Commercial	$117,096	$169	$—	$4,042	$121,307
Commercial real estate	185,128	—	—	1,716	186,844
Commercial construction	3,832	—	—	—	3,832
Land and land development loans	31,032	—	—	246	31,278
Agriculture	85,835	34	—	98	85,967
Multifamily	16,544	—	—	—	16,544
Residential real estate	59,158	439	—	423	60,020
Residential construction	940	—	—	—	940
Consumer	9,577	45	—	4	9,626

Municipal	12,267	—	—	—	12,267
Total	$521,409	$687	$—	$6,529	$528,625

12

Table of Contents

The following table provides a summary of Troubled Debt Restructurings ("TDR") outstanding at period end by performing status, (in thousands).

	March 31, 2013			December 31, 2012		
Troubled Debt Restructurings	Nonaccrual	Accrual	Total	Nonaccrual	Accrual	Total
Commercial	$ 31	$ 527	$ 558	$ 1,900	$ 277	$ 2,177
Commercial real estate	2,658	953	3,611	1,463	956	2,419
Land and land development loans	117	1,319	1,436	—	1,327	1,327
Agriculture	—	1,688	1,688	—	291	.291
Residential real estate	—	414	414	—	417	417
Consumer	—	120	120	—	88	88
Total	$ 2,806	$ 5,021	$ 7,827	$ 3,363	$ 3,356	$ 6,719

The Company's loans that were modified in the three month period ended March 31, 2013 and 2012 and considered a TDR are as follows (dollars in thousands):

	Three Months Ended March 31, 2013		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	4	$ 263	$ 263
Land and land development loans	2	153	153
Agriculture	4	1,216	1,216
Consumer	1	90	90
	11	$ 1,722	$ 1,722

	Three Months Ended March 31, 2012		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	1	$ 75	$ 75
Commercial real estate	1	100	100
Agriculture	1	110	110
	3	$ 285	$ 285

The balances below provide information as to how the loans were modified as TDRs during the three months ended March 31, 2013 and 2012, (in thousands).

	Three Months Ended March 31, 2013	
	Adjusted Interest Rate Only	Other*
Commercial	$ —	$ 263
Land and land development loans	36	117
Agriculture	852	364
Consumer	—	90
	$ 888	$ 834

(*) Other includes term or principal concessions or a combination of concessions, including interest rates.

Table of Contents

	Three Months Ended March 31, 2012	
	Adjusted Interest Rate Only	Other*
Commercial	$ 75	$ —
Commercial real estate	—	100
Agriculture	110	—
	$ 185	$ 100

(*) Other includes term or principal concessions or a combination of concessions, including interest rates.

As of March 31, 2013, the Company had specific reserves of $477,000 on TDRs, and there were no TDRs in default.

The allowance for loan losses and reserve for unfunded commitments are maintained at levels considered adequate by management to provide for probable loan losses as of the reporting dates. The allowance for loan losses and reserve for unfunded commitments are based on management's assessment of various factors affecting the loan portfolio, including problem loans, business conditions and loss experience, and an overall evaluation of the quality of the underlying collateral. Changes in the allowance for loan losses and the reserve for unfunded commitments during the three month periods ended March 31, 2013 and 2012 are as follows:

	Allowance for Loan Losses for the three months ended March 31, 2013				
	Balance, Beginning of Quarter	Charge-Offs Jan 1 through Mar 31, 2013	Recoveries Jan 1 through Mar 31, 2013	Provision	Balance, End of Quarter
	(Dollars in thousands)				
Commercial	$ 2,156	$ (89)	$ 178	$ (482)	$ 1,763
Commercial real estate	2,762	(566)	6	612	2,814
Commercial construction	101	—	2	114	217
Land and land development loans	1,197	(7)	15	5	1,210
Agriculture	228	—	19	(6)	241
Multifamily	51	—	—	4	55
Residential real estate	1,144	—	25	(66)	1,103
Residential construction	24	—	—	11	35
Consumer	202	(65)	38	31	206
Municipal	78	—	—	(44)	34
Allowance for loan losses	$ 7,943	$ (727)	$ 283	$ 179	$ 7,678

Table of Contents

	Allowance for Loan Losses for the three months ended March 31, 2012				
	Balance, Beginning of Quarter	Charge-Offs Jan 1 through Mar 31, 2012	Recoveries Jan 1 through Mar 31, 2012	Provision	Balance, End of Quarter
	(Dollars in thousands)				
Commercial	$ 2,817	$ (679)	$ 37	$ 402	$ 2,577
Commercial real estate	4,880	(1,137)	85	125	3,953
Commercial construction	500	—	2	(28)	474
Land and land development loans	2,273	(473)	38	372	2,210
Agriculture	172	(31)	51	(54)	138
Multifamily	91	—	—	(14)	77
Residential real estate	1,566	(163)	54	118	1,575
Residential construction	59	—	7	(4)	62
Consumer	295	(127)	59	31	258
Municipal	37	—	—	11	48
Allowances for loan losses	$ 12,690	$ (2,610)	$ 333	$ 959	$ 11,372

Allowance for Unfunded Commitments

	Three Months Ended March 31,	
	2013	2012
Beginning of period	$ 15	$ 13
Adjustment	2	1
Allowance — Unfunded Commitments at end of period	$ 17	$ 14

Management's policy is to charge off loans or portions of loans as soon as an identifiable loss amount can be determined from evidence obtained, such as current cash flow information, updated appraisals or similar real estate evaluations, equipment, inventory or similar collateral evaluations, accepted offers on loan sales or negotiated discounts, and/or guarantor asset valuations. In situations where problem loans are dependent on collateral liquidation for repayment, management obtains updated independent valuations, such as appraisals or broker opinions, generally no less frequently than once every twelve months and more frequently for larger or more troubled loans. In the time period between these independent valuations, the Company monitors market conditions for any significant event or events that would materially change the valuations, and updates them as appropriate. If the valuations suggest an increase in collateral values, the Company does not recover prior amounts charged off until the assets are actually sold and the increase realized. However, if the updated valuations suggest additional loss, the Company charges off the additional amount.

The following tables summarize impaired loans:

Table of Contents

	Impaired Loans					
	March 31, 2013			December 31, 2012		
	Recorded Investment	Principal Balance	Related Allowance	Recorded Investment	Principal Balance	Related Allowance
	(Dollars in thousands)					
With an allowance recorded:						
Commercial	$925	$1,535	$210	$1,796	$1,964	$628
Commercial real estate	1,343	1,378	301	1,315	1,486	267
Land and land development loans	1,617	1,645	142	1,601	1,627	114
Agriculture	14	14	10	31	31	10
Residential real estate	715	721	418	1,240	1,243	458
Consumer	146	148	114	138	140	87
Total	$4,760	$5,441	$1,195	$6,121	$6,491	$1,564
Without an allowance recorded:						
Commercial	$2,542	$3,711	$—	$4,337	$6,273	$—
Commercial real estate	3,636	5,319	—	2,058	3,178	—
Land and land development loans	338	406	—	422	493	—
Agriculture	2,529	2,530	—	2,103	2,103	—
Residential real estate	1,624	1,710	—	1,122	1,254	—
Consumer	41	59	—	30	48	—
Total	$10,710	$13,735	$—	$10,072	$13,349	$—
Total:						
Commercial	$3,467	$5,246	$210	$6,133	$8,237	$628
Commercial real estate	4,979	6,697	301	3,373	4,664	267
Land and land development loans	1,955	2,051	142	2,023	2,120	114
Agriculture	2,543	2,544	10	2,134	2,134	10
Residential real estate	2,339	2,431	418	2,362	2,497	458
Consumer	187	207	114	168	188	87
Total	$15,470	$19,176	$1,195	$16,193	$19,840	$1,564

Table of Contents

	Impaired Loans			
	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	Average Recorded Investment	Interest Income Recognized (*)	Average Recorded Investment	Interest Income Recognized (*)
	(Dollars in thousands)			
With an allowance recorded:				
Commercial	$1,360	$115	$2,959	$81
Commercial real estate	1,329	25	6,267	113
Commercial construction	—	—	600	24
Land and land development loans	1,609	28	1,956	177
Agriculture	23	2	16	—
Residential real estate	978	15	1,878	42
Consumer	142	3	249	7
Municipal	—	—	—	—
Total	$5,441	$188	$13,925	$444
Without an allowance recorded:				
Commercial	$3,439	$207	$6,017	$959
Commercial real estate	2,847	160	3,123	211
Commercial construction	—	—	148	5
Land and land development loans	380	22	2,906	224
Agriculture	2,316	111	2,380	125
Residential real estate	1,373	46	2,063	73
Consumer	36	1	36	4
Municipal	—	—	—	—
Total	$10,391	$547	$16,673	$1,601
Total:				
Commercial	$4,799	$322	$8,976	$1,040
Commercial real estate	4,176	185	9,390	324
Commercial construction	—	—	748	29
Land and land development loans	1,989	50	4,862	401
Agriculture	2,339	113	2,396	125
Residential real estate	2,351	61	3,941	115
Consumer	178	4	285	11
Municipal	—	—	—	—
Total	$15,832	$735	$30,598	$2,045

(*) Interest Income on individually impaired loans is calculated using the cash-basis method, using year to date interest on loans outstanding at 3/31/13.

Loan Risk Factors

The following is a recap of the risk characteristics associated with each of the Company's major loan portfolio segments.

Commercial Loans: Although the impacts of the soft recovery continue to heighten risk in the commercial portfolio, management does not consider the portfolio to present “concentration risk” at this time. Management believes there is adequate diversification by type, industry, and geography to mitigate excessive risk. The commercial portfolio includes a mix of term loan facilities and operating loans and lines made to a variety of different business types in the markets it serves. The Company utilizes SBA, USDA and other government-assisted or guaranteed financing programs whenever advantageous to further mitigate risk in this area. With the exception of the agricultural portfolio discussed in more detail below, there is no other significant concentration of industry types in its loan portfolio, and no dominant employer or industry across all the markets it serves. Underwriting focuses on the

Table of Contents

evaluation of potential future cash flows to cover debt requirements, sufficient collateral margins to buffer against devaluations, credit history of the business and its principals, and additional support from willing and capable guarantors.

Commercial Real Estate Loans: The slow recovery and stagnant real estate values continue to heighten risk in the non-residential component of the commercial real estate portfolio. However, in comparison to its national peer group and the risk that existed in its construction and development portfolio, the Company has less overall exposure to commercial real estate and a stronger mix of owner-occupied (where the borrower occupies and operates in at least part of the building) versus non-owner occupied loans. The loans represented in this category are spread across the Company's footprint, and there are no significant concentrations by industry type or borrower. The most significant property types represented in the portfolio are office 19.7%, industrial 15.9%, health care 12.3% and retail 12.6%. The other 39.5% is a mix of property types with smaller concentrations, including religious facilities, auto-related properties, restaurants, convenience stores, storage units, motels and commercial investment land.

While 66.4% of the Company's commercial real estate portfolio is in its Northern Idaho/Eastern Washington region, this region is a large and diverse region with differing local economies and real estate markets. Given this diversity, and the diversity of property types and industries represented, management does not believe that this concentration represents a significant concentration risk.

Non-owner occupied commercial real estate loans are made only to projects with strong debt-service-coverage and lower loan-to-value ratios and/or to borrowers with established track records and the ability to fund potential project cash flow shortfalls from other income sources or liquid assets. Project due diligence is conducted by the Bank, to help provide for adequate contingencies, collateral and/or government guaranties. The Company has largely avoided speculative financing of investment properties, particularly of the types most vulnerable in the recent downturn, including investment office buildings and retail strip developments. Management believes geographic, borrower and property-type diversification, and prudent underwriting and monitoring standards applied by seasoned commercial lenders mitigate concentration risk in this segment, although general economic sluggishness continues to negatively impact results.

Construction and Development Loans: After the aggressive reduction efforts of the past few years, the land development and commercial construction loan components pose much lower concentration risk for the total loan portfolio, and now total $35.1 million, or 6.6% of the loan portfolio. The substantial portfolio reduction, combined with stabilizing housing prices, has reduced risk in this portfolio to a level where it no longer represents a significant concentration risk.

Agricultural Loans: The agricultural portfolio represents a larger percentage of the loans in the Bank's southern Idaho region. At the end of the period, agricultural loans and agricultural real estate loans totaled $80.9 million or 16.0% of the total loan portfolio. The agricultural portfolio consists of loans secured by livestock, crops and real estate. Agriculture has typically been a cyclical industry with periods of both strong and weak performance. Current conditions are strong and are projected to remain solid for the next couple years, although rising input costs present some additional risk. To mitigate credit risk, specific underwriting is applied to retain only borrowers that have proven track records in the agricultural industry. Many of Intermountain's agricultural borrowers are third or fourth generation farmers and ranchers with limited real estate debt, which reduces overall debt coverage requirements and provides extra flexibility and collateral for equipment and operating borrowing needs. In addition, the Bank has hired senior lenders with significant experience in agricultural lending to administer these loans. Further mitigation is provided through frequent collateral inspections, adherence to farm operating budgets, and annual or more frequent review of financial performance. The Company has minimal exposure to the dairy industry, the significant agricultural segment that has been under extreme pressure for the past few years.

Multifamily: The multifamily segment comprises $15.9 million or 3.1% of the total loan portfolio at the end of the period. This portfolio represents relatively low risk for the Company, as a result of the strong current market for multifamily properties and low vacancy rates across the Company's footprint.

Residential Real Estate, Residential Construction and Consumer: Residential real estate, residential construction and consumer loans total $66.6 million or 13.2% of the total loan portfolio. Management does not believe they represent significant concentration risk. However, continuing soft employment conditions and loss of equity is putting pressure on some borrowers in this portfolio.

Municipal loans: Municipal loans comprise $6.2 million or 1.2% of the total loan portfolio. The small size of the portfolio and careful underwriting of the loans within it limit overall concentration risk in this segment.

Table of Contents

Credit quality indicators

The risk grade analyses included as part of the Company's credit quality indicators for loans and leases are developed through review of individual borrowers on an ongoing basis. Each loan is evaluated at the time of origination and each subsequent renewal. Loans with principal balances exceeding $500,000 are evaluated on a more frequent basis. Trigger events (such as loan delinquencies, customer contact, and significant collateral devaluation) also require an updated credit quality review. Loans with risk grades four through eight are evaluated at least annually with more frequent evaluations often done as borrower, collateral or market conditions change. In situations where problem loans are dependent on collateral liquidation for repayment, management obtains updated independent valuations, generally no less frequently than once every twelve months and more frequently for larger or more troubled loans.

Other measurements used to assess credit quality, including delinquency statistics, nonaccrual and OREO levels, net chargeoff activity, and classified asset trends, are updated and evaluated monthly.

These risk grades are defined as follows:

Satisfactory — A satisfactory rated loan is not adversely classified because it does not display any of the characteristics for adverse classification.

Watch — A watch loan has a solid but vulnerable repayment source. There is loss exposure only if the primary repayment source and collateral experience prolonged deterioration. Loans in this risk grade category are subject to frequent review and change due to the increased vulnerability of repayment sources and collateral valuations.

Special mention — A special mention loan has potential weaknesses that deserve management’s close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some future date. Special mention loans are not adversely classified and do not warrant adverse classification.

Substandard — A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard generally have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Doubtful — A loan classified doubtful has all the weaknesses inherent in a loan classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions, and values.

Loss — Loans classified loss are considered uncollectible and of such little value that their continuing to be carried as an asset is not warranted. This classification does not necessarily mean that there is to no potential for recovery or salvage value, but rather that it is not appropriate to defer a full write-off even though partial recovery may be realized in the future.

Credit quality indicators by loan segment are summarized as follows:

Table of Contents

Loan Portfolio Credit Grades by Type
March 31, 2013

	Satisfactory Grade 1-3	Internal Watch Grade 4	Special Mention Grade 5	Substandard Grade 6	Doubtful Grade 7	Total
	(Dollars in thousands)					
Commercial	$80,084	$23,768	$649	$7,467	$—	$111,968
Commercial real estate	130,295	46,855	195	6,451	—	183,796
Commercial construction	7,787	281	—	—	—	8,068
Land and land development loans	16,472	13,851	—	1,350	—	31,673
Agriculture	64,301	12,374	1,887	2,292	—	80,854
Multifamily	2,440	8,725	—	4,781	—	15,946
Residential real estate	45,415	9,553	—	2,677	—	57,645
Residential construction	1,318	—	—	—	—	1,318
Consumer	8,079	548	5	277	—	8,909
Municipal	6,019	132	—	—	—	6,151
Loans receivable, net	$362,210	$116,087	$2,736	$25,295	$—	$506,328

Loan Portfolio Credit Grades by Type
December 31, 2012

	Satisfactory Grade 1-3	Internal Watch Grade 4	Special Mention Grade 5	Substandard Grade 6	Doubtful Grade 7	Total
	(Dollars in thousands)					
Commercial	$90,520	$23,094	$—	$7,693	$—	$121,307
Commercial real estate	132,659	49,029	—	5,156	—	186,844
Commercial construction	3,794	38	—	—	—	3,832
Land and land development loans	15,869	13,894	—	1,515	—	31,278
Agriculture	69,445	14,379	—	2,143	—	85,967
Multifamily	2,465	8,961	—	5,118	—	16,544
Residential real estate	47,102	9,873	—	3,045	—	60,020
Residential construction	940	—	—	—	—	940
Consumer	8,529	835	—	262	—	9,626
Municipal	12,125	142	—	—	—	12,267
Loans receivable, net	$383,448	$120,245	$—	$24,932	$—	$528,625

A summary of non-performing assets and classified loans at the dates indicated is as follows:

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
Loans past due in excess of 90 days and still accruing	$—	$—
Non-accrual loans	5,137	6,529
Total non-performing loans	5,137	6,529
Other real estate owned (“OREO”)	4,664	4,951
Total non-performing assets (“NPAs”)	$9,801	$11,480
Classified loans (1)	$25,295	$24,932

1)

Classified loan totals are inclusive of non-performing loans and may also include troubled debt restructured loans, depending on the grading of these restructured loans.

Table of Contents

5. Other Real Estate Owned:

At the applicable foreclosure date, OREO is recorded at the fair value of the real estate, less the estimated costs to sell the real estate. The carrying value of OREO is regularly evaluated and, if necessary, the carrying value is reduced to net realizable value. The following table presents OREO for the periods presented:

	Three Months Ended	
	March 31, 2013	March 31, 2012
	(Dollars in thousands)	
Balance, beginning of period	$4,951	$6,650
Additions to OREO	394	620
Proceeds from sale of OREO	(655)	(438)
Valuation adjustments in the period (1)	(26)	20
Balance, end of period, March 31	$4,664	$6,852

(1) Amount includes chargedowns and gains/losses on sale of OREO

For the periods indicated, OREO assets consisted of the following (in thousands):

	March 31, 2013		December 31, 2012	
Single family residence	$—	— %	$79	1.6 %
Developed residential lots	1,308	28.0 %	1,308	26.4 %
Commercial buildings	16	0.3 %	—	— %
Raw land	3,340	71.7 %	3,564	72.0 %
Total OREO	$4,664	100.0 %	$4,951	100.0 %

The Company’s Special Assets Group continues to dispose of OREO properties through a combination of individual and bulk sales to investors.

6. Other Borrowings:

The components of other borrowings are as follows (in thousands):

	March 31, 2013	December 31, 2012
Term note payable (1)	$8,279	$8,279
Term note payable (2)	8,248	8,248
Total other borrowings	$16,527	$16,527

---

(1) In January 2003, the Company issued $8.0 million of Trust Preferred securities through its subsidiary, Intermountain Statutory Trust I. The debt associated with these securities bears interest on a variable basis tied to the 90-day LIBOR (London Inter-Bank Offering Rate) index plus 3.25%, with interest only paid quarterly. The rate on this borrowing was 3.62% at March 31, 2013. The debt is callable by the Company quarterly and matures in March 2033. See Note A below.

(2) In March 2004, the Company issued $8.0 million of Trust Preferred securities through its subsidiary, Intermountain Statutory Trust II. The debt associated with these securities bears interest on a variable basis tied to the 90-day LIBOR index plus 2.8%, with interest only paid quarterly. The rate on this borrowing was 3.26% at March 31, 2013. The debt is callable by the Company quarterly and matures in April 2034. During the third quarter of 2008, the Company entered into an interest rate swap contract with Pacific Coast Bankers Bank. The purpose of the $8.2 million notional value swap is to convert the variable rate payments made on our Trust Preferred I obligation

to a series of fixed rate payments at 7.38% for five years, as a hedging strategy to help manage the Company's interest-rate risk. See Note A below:

A) Intermountain's obligations under the debentures issued to the trusts referred to above constitute a full and unconditional guarantee by Intermountain of the Statutory Trusts' obligations under the Trust Preferred Securities.

21

Table of Contents

In accordance with ASC 810, Consolidation, the trusts are not consolidated and the debentures and related amounts are treated as debt of Intermountain.

7. Earnings Per Share:
The following table presents the basic and diluted earnings per share computations (numbers in thousands):

	Three Months Ended	
	2013	2012
Numerator:		
Net income - basic and diluted	$1,525	$801
Preferred stock dividend	458	466
Net income applicable to common stockholders	$1,067	$335
Denominator:		
Weighted average shares outstanding - basic	6,442,988	4,427,831
Dilutive effect of common stock options, warrants, restricted stock awards	37,036	14,842
Weighted average shares outstanding — diluted	6,480,024	4,442,673
Earnings per share — basic and diluted:		
Earnings per share — basic	$0.17	$0.08
Effect of dilutive common stock options, warrants, restricted stock awards	(0.01)	0.00
Earnings per share — diluted	$0.16	$0.08

All shares in the table above have been adjusted to reflect the impact of a 10-for-1 reverse stock split, effective, October 5, 2012.
At March 31, 2013 and March 31, 2012, there were 8,042 and 15,310 anti-dilutive common stock options, respectively, not included in diluted earnings per share. At March 31, 2013, and March 31, 2012, there were 65,323 of anti-dilutive common stock warrants-Series A not included in diluted earnings per share.
As part of the Company's January 2012 capital raise (see Note 8 "Stockholders' Equity"), warrants were issued for 1,700,000 shares, and on a reverse-split adjusted basis, 170,000 shares of non-voting common stock. The impacts of these warrants were included in diluted earnings per share, and were calculated using the treasury stock method.

8. Stockholders' Equity:
On December 19, 2008, the Company issued 27,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, no par value with a liquidation preference of $1,000 per share (“Preferred Stock”) a 10-year warrant to purchase up to 653,226 shares, and on a reverse-split adjusted basis, 65,323 shares, of Common Stock, no par value, as part of the Troubled Asset Relief Program Capital Purchase Program of the U.S. Department of Treasury (“U.S. Treasury”). The $27.0 million cash proceeds were allocated between the Preferred Stock and the warrant to purchase common stock based on the relative estimated fair values at the date of issuance, and the estimated value of the warrants was included in equity. The fair value of the warrants was determined under the Black-Scholes model. The model includes assumptions regarding the Company’s common stock prices, dividend yield, and stock price volatility as well as assumptions regarding the risk-free interest rate. The strike price for the warrant, as adjusted for the 1-for-10 reverse stock split, is $62.00 per share.
Dividends on the Series A Preferred Stock will accrue and be paid quarterly at a rate of 5% per year for the first 5 years and thereafter at a rate of 9% per year. The dividend rate will increase to 9% in December 2013. The shares of Series A Preferred Stock have no stated maturity, do not have voting rights except in certain limited circumstances and are not subject to mandatory redemption or a sinking fund.
The Series A Preferred Stock has priority over the Company’s common stock with regard to the payment of dividends and liquidation distributions. The Series A Preferred Stock qualifies as Tier 1 capital. The agreement with the U.S. Treasury contains limitations on certain actions of the Company, including the payment of quarterly cash dividends on the Company’s common stock in excess of current cash dividends paid in the previous quarter and the

repurchase of its common stock during the first 3 years of the agreement. In addition, the Company agreed that, while the U.S. Treasury owns the Series A Preferred Stock, the Company's

22

employee benefit plans and other executive compensation arrangements for its senior executive officers must comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008.

As part of the Company's capital raise in January, 2012, the Company authorized up to 864,600 shares of Mandatorily Convertible Cumulative Participating Preferred Stock, Series B, no par value with a liquidation preference of $0.01 per share ("Series B Preferred Stock"), 698,993 of which were issued. Each of these shares automatically converted into 50 shares of a new series of non-voting common stock at a conversion price of $1.00 per share (the "Non-Voting Common Stock") in May, 2012 after shareholder approval of such Non-Voting Common Stock. The Non-Voting Common Stock has equal rights in terms of dividends and liquidation preference to the Company's Voting Common Stock, but does not provide holders with voting rights on shareholder matters. A 10-for-1 reverse stock split became effective October 5, 2012, which reduced the number of non-voting shares outstanding.

In addition, as part of the Company's January 2012 capital raise, warrants to purchase 1,700,000 shares, and on a reverse-split adjusted basis, 170,000 shares of the Company's Voting Common or Non-Voting Common were issued to two of the shareholders participating in the raise. The cash proceeds of the January offering were allocated between the warrants, the Common Stock and the Series B Preferred Stock based on the relative estimated fair values at the date of issuance. The fair value of the warrants was determined using common valuation modeling. The modeling includes assumptions regarding the Company's common stock prices, dividend yield, and stock price volatility as well as assumptions regarding the risk-free interest rate. The strike price for the warrant, on a reverse-split adjusted basis, is $10 per share, but is adjusted down if the Company recorded or otherwise issues shares at a price lower than the strike price. As such, the warrants are accounted for as a liability and listed at fair value on the Company's financial statements. Adjustments to the fair value are measured quarterly and any changes are recorded through non-interest income.

In May 2012, the Company successfully completed an $8.7 million Common Stock rights offering, including the purchase of unsubscribed shares by investors in the Company's January private placement. As a result of the raise, the Company, issued, on a reverse-split adjusted basis, 525,000 shares of Voting Common stock and 345,000 shares of Non-Voting Common Stock.

9. Income Taxes:

For the three month periods ended March 31, 2013 and March 31, 2012, respectively, the Company recorded no income tax provision. In both periods, the Company generated positive net income before income taxes, but recorded no provision as it offset current income against carryforward losses from prior years. The Company maintained a net deferred tax asset of $12.1 million and $12.3 million as of March 31, 2013 and December 31, 2012, net of a valuation allowance of $8.1 million and $8.5 million, respectively.

Intermountain uses an estimate of future earnings, future reversal of taxable temporary differences, and tax planning strategies to determine whether it is more likely than not that the benefit of the deferred tax asset will be realized. At March 31, 2013, Intermountain assessed whether it was more likely than not that it would realize the benefits of its deferred tax asset. Intermountain determined that the negative evidence associated with a three-year cumulative loss for the period ended December 31, 2011, and challenging economic conditions continued to outweigh the positive evidence. Therefore, Intermountain maintained the valuation allowance of $8.1 million against its deferred tax asset at March 31, 2013, as compared to an $8.5 million valuation allowance at the end of 2012. The Company analyzes the deferred tax asset on a quarterly basis and may increase the allowance or release a portion or all of this allowance depending on actual results and estimates of future profitability. Including the valuation allowance, Intermountain had a net deferred tax asset of $12.1 million as of March 31, 2013, compared to a net deferred tax asset of $12.3 million as of December 31, 2012. The decrease in the net deferred asset from December 31, 2012 is primarily due to decreases in the tax assets associated with the allowance for loan losses and OTTI adjustment, and an increase in the deferred liability associated with unrealized gains on investment securities.

In conducting its valuation allowance analysis, the Company developed an estimate of future earnings to determine both the need for a valuation allowance and the size of the allowance. In conducting this analysis, management has assumed economic conditions will continue to be challenging in 2013, followed by gradual improvement in the ensuing years. As such, its estimates include lower credit losses in 2013 and ensuing years as the Company's loan portfolio continues to turn over. It also assumes: (1) a compressed net interest margin in 2013 and 2014, with gradual improvement in future years, as the Company is able to convert some of its cash position to higher yielding instruments; and (2) reductions in operating expenses as credit costs abate and its other cost reduction strategies continue.

The completion of the $47.3 million capital raise in January 2012 triggered Internal Revenue Code Section 382 limitations on the amount of tax benefit from net operating loss carryforwards that the Company can utilize annually, because of the level of investment by several of the larger investors. This could impact the amount and timing of the release of the valuation allowance, largely depending on the level of market interest rates and the fair value of the Company's balance sheet at the time the offering

Table of Contents

was completed. The evaluation of this impact is still being completed and will likely not be known until its 2012 tax return is finalized in 2013. Based on its preliminary analysis, the Company believes that it should be able to recapture most or all of its tax benefit from the net operating loss carryforwards in the 20-year carryforward period, even given the Section 382 limitations. As with other future estimates, the Company cannot guarantee these future results.
Intermountain has performed an analysis of its uncertain tax positions and has not recorded any potential penalties, interest or additional tax in its financial statements as of March 31, 2013. If Intermountain did incur penalties or interest, they would be reported in the income tax provision. Intermountain's tax positions for the years 2009 through 2012 remain subject to review by the Internal Revenue Service. Intermountain does not expect unrecognized tax benefits to significantly change within the next twelve months.

10. Fair Value of Financial Instruments:
Intermountain is required to disclose the estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. These fair value estimates are made at March 31, 2013 based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price an asset could be sold at or the price a liability could be settled for. However, given there is no active market or observable market transactions for many of the Company's financial instruments, the Company has made estimates of many of these fair values which are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values.
The estimated fair value of the instruments as of March 31, 2013 and December 31, 2012 are as follows (in thousands):

	Fair Value Measurements of				
		March 31, 2013		December 31, 2012	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash, cash equivalents, restricted cash and federal funds sold	1	$62,250	$62,250	$80,085	$80,085
Available-for-sale securities	2 & 3	282,769	282,769	280,169	280,169
Held-to-maturity securities	2	14,795	16,291	14,826	16,344
Loans held for sale	2	2,023	2,023	1,684	1,684
Loans receivable, net	3	498,754	512,394	520,768	536,003
Accrued interest receivable	2	4,051	4,051	4,320	4,320
BOLI	1	9,556	9,556	9,472	9,472
Other assets	2	2,028	2,028	2,024	2,024
Financial liabilities:					
Deposit liabilities	3	719,467	711,718	748,934	751,808
Borrowings	3	86,684	84,031	97,265	94,673
Accrued interest payable	2	337	337	1,185	1,185
Unexercised warrants	3	772	772	828	828