INTERMOUNTAIN COMMUNITY BANCORP
Form 10-Q
August 12, 2013
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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 June 30, 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 August 7, 2013 was 2,603,606 and the number of outstanding shares of Non-Voting Common Stock, no par value per share, was 3,839,688.

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents:		
Interest-bearing	$33,474	$53,403
Non-interest bearing and vault	7,003	13,536
Restricted cash	12,464	13,146
Available-for-sale securities, at fair value	256,616	280,169
Held-to-maturity securities, at amortized cost	22,991	14,826
Federal Home Loan Bank (“FHLB”) of Seattle stock, at cost	2,228	2,269
Loans held for sale	1,081	1,684
Loans receivable, net	522,740	520,768
Accrued interest receivable	4,463	4,320
Office properties and equipment, net	35,408	35,453
Bank-owned life insurance ("BOLI")	9,642	9,472
Other real estate owned (“OREO”)	4,512	4,951
Prepaid expenses and other assets	17,936	18,142
Total assets	$930,558	$972,139
LIABILITIES		
Deposits	$699,521	$748,934
Securities sold subject to repurchase agreements	85,605	76,738
Advances from Federal Home Loan Bank	4,000	4,000
Unexercised stock warrant liability	826	828
Cashier checks issued and payable	2,278	2,024
Accrued interest payable	316	1,185
Other borrowings	16,527	16,527
Accrued expenses and other liabilities	8,440	7,469
Total liabilities	817,513	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 June 30, 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 June 30, 2013 and December 31, 2012, respectively	31,941	31,941
Preferred stock, Series A, 27,000 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively; liquidation preference of $1,000 per share	26,770	26,527
Accumulated other comprehensive income, net of tax	(641)	3,529
Accumulated deficit	(41,383)	(43,931)
Total stockholders’ equity	113,045	114,434
Total liabilities and stockholders’ equity	$930,558	$972,139

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

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Intermountain Community Bancorp
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Interest income:				
Loans	$6,893	$7,054	$13,604	$14,126
Investments	1,580	2,072	3,172	4,120
Total interest income	8,473	9,126	16,776	18,246
Interest expense:				
Deposits	510	744	1,070	1,566
Other borrowings	441	571	866	1,247
Total interest expense	951	1,315	1,936	2,813
Net interest income	7,522	7,811	14,840	15,433
Provision for losses on loans	(247)	(1,575)	(426)	(2,534)
Net interest income after provision for losses on loans	7,275	6,236	14,414	12,899
Other income:				
Fees and service charges	1,895	1,592	3,570	3,185
Loan related fee income	696	686	1,263	1,299
Net gain on sale of securities	163	—	203	585
Net gain (loss) on sale of other assets	2	18	6	22
Other-than-temporary impairment (“OTTI”) losses on investments (1)	(21)	(52)	(63)	(323)
Bank-owned life insurance	85	87	170	174
Fair value adjustment on cash flow hedge	80	90	146	(294)
Unexercised warrant liability fair value adjustment	(54)	158	2	158
Other	40	189	153	398
Total other income	2,886	2,768	5,450	5,204
Operating expenses:				
Salaries and employee benefits	4,283	3,871	8,458	8,006
Occupancy expense	1,521	1,623	3,045	3,307
Advertising	180	168	294	280
Fees and service charges	656	629	1,273	1,250
Printing, postage and supplies	173	300	390	601
Legal and accounting	471	396	812	746
FDIC assessment	165	308	351	621
OREO operations	32	120	143	224
Other expenses	739	807	1,632	1,485
Total operating expenses	8,220	8,222	16,398	16,520
Net income before income taxes	1,941	782	3,466	1,583
Income tax benefit	—	—	—	—
Net income	1,941	782	3,466	1,583
Preferred stock dividend	460	481	918	947
Net income applicable to common stockholders	$1,481	$301	$2,548	$636
Earnings per share — basic	$0.23	$0.05	$0.40	$0.12
Earnings per share — diluted	$0.23	$0.05	$0.39	$0.12
Weighted average common shares outstanding — basic	6,443,294	5,901,321	6,443,142	5,164,576

Weighted average common shares outstanding — diluted	6,484,762	5,919,188	6,482,376	5,181,109

(1) Consisting of $0, 0, 0 and $0 of total other-than-temporary impairment net losses, net of $(21), $(52), $(63) and $(316) recognized in other comprehensive income, for the three and six months ended June 30, 2013 and June 30, 2012, respectively.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Net income	$1,941	$782	$3,466	$1,583
Other comprehensive income:				
Change in unrealized gains/losses on investments, and mortgage backed securities ("MBS") available for sale, excluding non-credit loss on impairment of securities	(7,259)	292	(6,763)	(439)
Realized net losses reclassified from other comprehensive income	(163)	—	(203)	(585)
Non-credit loss on impairment on available-for-sale debt securities	21	52	63	316
Less deferred income tax benefit (provision) on securities	2,931	(136)	2,734	280
Change in fair value of qualifying cash flow hedge, net of tax	—	—	—	330
Net other comprehensive income (loss)	(4,470)	208	(4,169)	(98)
Comprehensive income (loss)	$(2,529)	$990	$(703)	$1,485

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

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Intermountain Community Bancorp
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2013	2012
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$3,466	$1,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,194	1,341
Stock-based compensation expense	13	43
Net amortization of premiums on securities	3,291	2,485
Provisions for losses on loans	426	2,534
Amortization of core deposit intangibles	29	58
(Gain) on sale of loans, investments, property and equipment	(978)	(1,413)
Impact of hedge dedesignation and current fair value adjustment	(147)	374
OTTI credit loss on available-for-sale investments	63	323
OREO valuation adjustments	17	30
Accretion of deferred gain on sale of branch property	(8)	(8)
Net accretion of loan and deposit discounts and premiums	(5)	(7)
Increase in cash surrender value of bank-owned life insurance	(170)	(174)
Change in value of stock warrants	(2)	(158)
Change in:		
Accrued interest receivable	(143)	(422)
Prepaid expenses and other assets	2,886	2,385
Accrued interest payable and other liabilities	257	605
Accrued expenses and other cashiers checks	254	(199)
Proceeds from sale of loans originated for sale	31,274	38,824
Loans originated for sale	(29,895)	(36,533)
Net cash provided by operating activities	11,822	11,671
Cash flows from investing activities:		
Proceeds from redemption of FHLB Stock	41	—
Purchases of available-for-sale securities	(62,574)	(100,754)
Proceeds from sales, calls or maturities of available-for-sale securities	34,798	2,967
Principal payments on mortgage-backed securities	33,058	28,692
Proceeds from sales, calls or maturities of held-to-maturity securities	53	1,261
Origination of loans, net of principal payments	(2,787)	(11,653)
Purchase of office properties and equipment	(1,164)	(184)
Proceeds from sale of other real estate owned	817	2,047
Proceeds from sale of office properties and equipment	13	16
Net change in restricted cash	683	(296)
Net cash provided by (used in) investing activities	2,938	(77,904)
Cash flows from financing activities:		
Proceeds from issuance of series B preferred stock, gross	—	32,460
Proceeds from issuance of common stock, gross	—	22,532
Proceeds from issuance of warrant, gross	—	1,007
Capital issuance costs	—	(5,651)
Net change in demand, money market and savings deposits	(32,033)	5,403

Net change in certificates of deposit	(17,380)	(18,266)
Net change in repurchase agreements	8,867	(19,646)
Retirement of treasury stock	(1)	—
Payment of preferred stock dividend	(675)	—
Net cash provided by (used in) financing activities	(41,222)	17,839
Net change in cash and cash equivalents	(26,462)	(48,394)
Cash and cash equivalents, beginning of period	66,939	107,199
Cash and cash equivalents, end of period	$40,477	$58,805
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$2,804	$2,812
Noncash investing and financing activities:		
Loans converted to other real estate owned	$394	$694
Accrual of preferred stock dividend	$—	$763
Transfer from securities available-for-sale to securities held-to-maturity	$8,234	$—

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

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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, the Company 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 six months ended June 30, 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):

	6/30/2013	12/31/2012
Unrestricted interest-bearing cash and cash equivalents	$33,474	$53,403
Unrestricted non interest-bearing and vault cash	$7,003	$13,536
Restricted non-interest bearing cash	$12,464	$13,146

In June 2013 and December 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 June 30 restricted non-interest bearing cash consisted of the following:

- $1.3 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.

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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
June 30, 2013					
Corporate Bonds	$6,013	$—	$—	$(69)	$5,944
State and municipal securities	50,567	—	136	(1,237)	49,466
Mortgage-backed securities - Agency Pass Throughs	53,454	—	794	(705)	53,543
Mortgage-backed securities - Agency CMO's	114,546	—	1,478	(1,185)	114,839
SBA Pools	24,593	—	519	(42)	25,070
Mortgage-backed securities - Non Agency CMO's (below investment grade)	8,240	(902)	624	(208)	7,754
	$257,413	$(902)	$3,551	$(3,446)	$256,616
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
June 30, 2013					
State and municipal securities	$22,991	$—	$1,064	$(2)	$24,053
December 31, 2012					
State and municipal securities	$14,826	$—	$1,518	$—	$16,344

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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).

	Less Than 12 Months		12 Months or Longer		Total	
June 30, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate Bonds	$5,944	$(69)	$—	$—	$5,944	$(69)
Residential mortgage-back securities	70,796	(1,452)	16,765	(646)	87,561	(2,098)
SBA Pools	4,443	(42)	—	—	4,443	(42)
State and municipal securities	37,249	(1,239)	—	—	37,249	(1,239)
Total	$118,432	$(2,802)	$16,765	$(646)	$135,197	$(3,448)

	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 June 30, 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	$—	$—	$507	$510
After one year through five years	3,577	3,576	4,001	4,095
After five years through ten years	6,717	6,507	16,976	17,753
After ten years	46,286	45,327	1,507	1,695
Subtotal	56,580	55,410	22,991	24,053
Mortgage-backed securities	176,240	176,136	—	—
SBA Pools	24,593	25,070	—	—
Total Securities	$257,413	$256,616	$22,991	$24,053

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 June 30, 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.

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The following table presents the OTTI losses for the six months ended June 30, 2013 and June 30, 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)	—	63	—	316
Net impairment losses recognized in earnings (2)	$—	$63	$—	$323

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

On June 30, 2013,six securities with a amortized cost of $8,512,039were transferred from the available-for-sale category to the held-to-maturity category of the portfolio. The fair market value of the securities at the time of transfer was $8,234,244. The unrealized loss of $277,795 will continue to be reported as a component of accumulated other comprehensive income, net of tax, and amortized over the remaining life of the securities as an adjustment to yield. Upon transfer to the held-to-maturity category, premium and discount accounts were adjusted to reflect the fair market value of the security. The resulting premiums and discounts will also be amortized as an adjustment to yield.

See Note 9 "Fair Value of Financial Instruments" for more information on the calculation of fair or carrying value for the investment securities.

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4. Loans and Allowance for Loan Losses:
The components of loans receivable are as follows (in thousands):

	June 30, 2013			
	Loans Receivable	%	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial	$113,699	21.4 %	$4,480	$109,219
Commercial real estate	190,816	36.0	4,463	186,353
Commercial construction	10,085	1.9	—	10,085
Land and land development loans	30,895	5.8	2,860	28,035
Agriculture	94,831	17.8	4,537	90,294
Multifamily	15,271	2.9	—	15,271
Residential real estate	58,309	11.0	2,707	55,602
Residential construction	2,004	0.4	—	2,004
Consumer	8,843	1.7	161	8,682
Municipal	6,029	1.1	—	6,029
Total loans receivable	530,782	100.0 %	$19,208	$511,574
Allowance for loan losses	(8,042)			
Deferred loan fees, net of direct origination costs	—			
Loans receivable, net	$522,740			
Weighted average interest rate	5.28 %			

	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 %			

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

	June 30, 2013		
	Total Allowance	Individually Evaluated Allowance	Collectively Evaluated Allowance
Commercial	$1,900	$253	$1,647
Commercial real estate	2,736	366	2,370
Commercial construction	231	—	231
Land and land development loans	956	112	844
Agriculture	692	—	692
Multifamily	54	—	54
Residential real estate	1,195	458	737
Residential construction	44	—	44
Consumer	203	109	94
Municipal	31	—	31
Total	$8,042	$1,298	$6,744

	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 June 30, 2013 is as follows, (in thousands):

	Current	30-89 Days Past Due	90 Days or More Past Due and Accruing	Nonaccrual	Total
Commercial	$112,038	$244	$—	$1,417	$113,699
Commercial real estate	188,088	—	—	2,728	190,816
Commercial construction	10,085	—	—	—	10,085
Land and land development loans	30,622	159	—	114	30,895
Agriculture	94,151	404	—	276	94,831
Multifamily	15,271	—	—	—	15,271
Residential real estate	57,681	455	—	173	58,309
Residential construction	2,004	—	—	—	2,004
Consumer	8,741	11	—	91	8,843
Municipal	6,029	—	—	—	6,029

Total	$524,710	$1,273	$—	$4,799	$530,782

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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

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

	June 30, 2013			December 31, 2012		
	Nonaccrual	Accrual	Total	Nonaccrual	Accrual	Total
Commercial	$29	$2,743	$2,772	$1,900	$277	$2,177
Commercial real estate	1,540	2,286	3,826	1,463	956	2,419
Land and land development loans	—	914	914	—	1,327	1,327
Agriculture	—	3,015	3,015	—	291	291
Residential real estate	—	1,164	1,164	—	417	417
Consumer	—	100	100	—	88	88
Total	$1,569	$10,222	$11,791	$3,363	$3,356	$6,719

The Company's loans that were modified in the three and six month period ended June 30, 2013 and 2012 and considered a TDR are as follows (dollars in thousands):

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	3	$ 2,243	$ 2,243	7	$ 2,506	$ 2,506
Commercial real estate	4	392	392	4	392	392
Land and land development loans	1	182	182	3	335	335
Agriculture	—	—	—	4	1,216	1,216
Residential real estate	3	225	167	3	225	167
Consumer	—	—	—	1	89	89
	11	$ 3,042	$ 2,984	22	$ 4,763	$ 4,705

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	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	—	$ —	$ —	1	$ 75	$ 75
Commercial real estate	—	—	—	1	100	100
Land and land development loans	—	—	—	—	—	—
Agriculture	—	—	—	1	110	110
Residential real estate	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
	—	$ —	$ —	3	$ 285	$ 285

The balances below provide information as to how the loans were modified as TDRs during the three and six months ended June 30, 2013 and 2012, (in thousands).

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Adjusted Interest Rate Only	Other*	Adjusted Interest Rate Only	Other*
Commercial	$ 1,350	$ 893	$ 1,350	$ 1,156
Commercial real estate	—	392	—	392
Land and land development loans	—	182	36	299
Agriculture	—	—	852	364
Residential real estate	147	20	147	20
Consumer	—	—	—	90
	$ 1,497	$ 1,487	$ 2,385	$ 2,321

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

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Adjusted Interest Rate Only	Other*	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 June 30, 2013, the Company had specific reserves of $460,000 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 and six month periods ended June 30, 2013 and 2012 are as follows:

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Allowance for Loan Losses
for the three months ended June 30, 2013

	Balance, Beginning of Quarter	Charge-Offs Apr 1 through June 30, 2013	Recoveries Apr 1 through June 30, 2013	Provision	Balance, End of Quarter
	(Dollars in thousands)				
Commercial	$ 1,763	$ (132)	$ 310	$ (41)	$ 1,900
Commercial real estate	2,814	(48)	20	(50)	2,736
Commercial construction	217	—	14	—	231
Land and land development loans	1,210	(130)	49	(173)	956
Agriculture	241	—	23	428	692
Multifamily	55	—	—	(1)	54
Residential real estate	1,103	(40)	45	87	1,195
Residential construction	35	—	—	9	44
Consumer	206	(46)	52	(9)	203
Municipal	34	—	—	(3)	31
Allowance for loan losses	$ 7,678	$ (396)	$ 513	$ 247	$ 8,042

Allowance for Loan Losses
for the six months ended June 30, 2013

	Balance, Beginning of Year	Charge-Offs Jan 1 through June 30, 2013	Recoveries Jan 1 through June 30, 2013	Provision	Balance, End of Period
	(Dollars in thousands)				
Commercial	$ 2,156	$ (221)	$ 489	$ (524)	$ 1,900
Commercial real estate	2,762	(614)	27	561	2,736
Commercial construction	101	—	15	115	231
Land and land development loans	1,197	(137)	64	(168)	956
Agriculture	228	—	41	423	692
Multifamily	51	—	—	3	54
Residential real estate	1,144	(40)	70	21	1,195
Residential construction	24	—	—	20	44
Consumer	202	(110)	89	22	203
Municipal	78	—	—	(47)	31
Allowance for loan losses	$ 7,943	$ (1,122)	$ 795	$ 426	$ 8,042

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Allowance for Loan Losses
for the three months ended June 30, 2012

	Balance, Beginning of Quarter	Charge-Offs Apr 1 through June 30, 2012	Recoveries Apr 1 through June 30, 2012	Provision	Balance, End of Quarter
	(Dollars in thousands)				
Commercial	$2,577	$(1,078)	$289	$641	$2,429
Commercial real estate	3,953	(841)	134	786	4,032
Commercial construction	474	(243)	3	(140)	94
Land and land development loans	2,210	(711)	229	(163)	1,565
Agriculture	138	(1)	18	52	207
Multifamily	77	—	—	(20)	57
Residential real estate	1,575	(502)	60	468	1,601
Residential construction	62	—	—	(58)	4
Consumer	258	(127)	56	14	201
Municipal	48	—	—	(5)	43
Allowances for loan losses	$11,372	$(3,503)	$789	$1,575	$10,233

Allowance for Loan Losses
for the six months ended June 30, 2012

	Balance, Beginning of Year	Charge-Offs an 1 through June 30, 2012	Recoveries Jan 1 through June 30, 2012	Provision	Balance, End of Period
	(Dollars in thousands)				
Commercial	$2,817	$(1,757)	$326	$1,043	$2,429
Commercial real estate	4,880	(1,978)	219	911	4,032
Commercial construction	500	(243)	5	(168)	94
Land and land development loans	2,273	(1,184)	267	209	1,565
Agriculture	172	(32)	69	(2)	207
Multifamily	91	—	—	(34)	57
Residential real estate	1,566	(665)	114	586	1,601
Residential construction	59	—	7	(62)	4
Consumer	295	(254)	115	45	201
Municipal	37	—	—	6	43
Allowance for loan losses	$12,690	$(6,113)	$1,122	$2,534	$10,233

Allowance for Unfunded Commitments

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Beginning of period	$17	$14	$15	$13
Adjustment	(2)	1	—	2
Allowance — Unfunded Commitments at end of period	$15	$15	$15	$15

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

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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:

	Impaired Loans					
	June 30, 2013			December 31, 2012		
	Recorded Investment	Principal Balance	Related Allowance	Recorded Investment	Principal Balance	Related Allowance
	(Dollars in thousands)					
With an allowance recorded:						
Commercial	$1,204	$1,427	$253	$1,796	$1,964	$628
Commercial real estate	1,225	1,260	366	1,315	1,486	267
Land and land development loans	834	834	112	1,601	1,627	114
Agriculture	—	—	—	31	31	10
Residential real estate	921	939	458	1,240	1,243	458
Consumer	125	126	109	138	140	87
Total	$4,309	$4,586	$1,298	$6,121	$6,491	$1,564
Without an allowance recorded:						
Commercial	$3,276	$4,508	$—	$4,337	$6,273	$—
Commercial real estate	3,238	4,931	—	2,058	3,178	—
Land and land development loans	2,026	2,166	—	422	493	—
Agriculture	4,537	4,539	—	2,103	2,103	—
Residential real estate	1,786	1,839	—	1,122	1,254	—
Consumer	36	53	—	30	48	—
Total	$14,899	$18,036	$—	$10,072	$13,349	$—
Total:						
Commercial	$4,480	$5,935	$253	$6,133	$8,237	$628
Commercial real estate	4,463	6,191	366	3,373	4,664	267
Land and land development loans	2,860	3,000	112	2,023	2,120	114
Agriculture	4,537	4,539	—	2,134	2,134	10
Residential real estate	2,707	2,778	458	2,362	2,497	458
Consumer	161	179	109	168	188	87
Total	$19,208	$22,622	$1,298	$16,193	$19,840	$1,564

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	Impaired Loans			
	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	Average Recorded Investment	Interest Income Recognized (*)	Average Recorded Investment	Interest Income Recognized (*)
	(Dollars in thousands)			
With an allowance recorded:				
Commercial	$1,308	$52	$2,668	$99
Commercial real estate	1,294	39	5,605	222
Commercial construction	—	—	400	—
Land and land development loans	1,351	25	1,921	95
Agriculture	15	—	21	3
Residential real estate	959	28	1,870	66
Consumer	136	6	230	10
Total	$5,063	$150	$12,715	$495
Without an allowance recorded:				
Commercial	$3,385	$297	$5,920	$549
Commercial real estate	2,977	232	2,618	162
Commercial construction	—	—	97	—
Land and land development loans	929	31	2,396	137
Agriculture	3,056	189	2,305	124
Residential real estate	1,511	67	1,698	52
Consumer	36	2	35	4
Total	$11,894	$818	$15,069	$1,028
Total:				
Commercial	$4,693	$349	$8,588	$648
Commercial real estate	4,271	271	8,223	384
Commercial construction	—	—	497	—
Land and land development loans	2,280	56	4,317	232
Agriculture	3,071	189	2,326	127
Residential real estate	2,470	95	3,568	118
Consumer	172	8	265	14
Total	$16,957	$968	$27,784	1,523

(*) Interest Income on individually impaired loans is calculated using the cash-basis method, using year to date interest on loans outstanding at 6/30/13.

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 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: Recovering economic conditions and stabilizing commercial property values have reduced risk in this segment from prior recent quarters. In comparison to its national peer group, 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 21.2%, industrial 14.0%, health care 14.8% and retail 11.2%. The other 38.8% 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 68.5% 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.

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 $40.1 million, or 7.7% of the loan portfolio. The substantial portfolio reduction, combined with stabilizing real estate values, 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 $94.8 million or 17.8% 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 remain strong but may weaken in the next few years because of rising input costs, weaker commodity prices, and potential water shortages. 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.

Multifamily: The multifamily segment comprises $15.3 million or 2.9% 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 $69.2 million or 13.1% of the total loan portfolio. Management does not believe they represent significant concentration risk. However, continuing soft employment conditions and reduced home equity is putting pressure on some borrowers in this portfolio.

Municipal loans: Municipal loans comprise $6.0 million or 1.1% 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.

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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:

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Loan Portfolio Credit Grades by Type
June 30, 2013

	Satisfactory Grade 1-3	Internal Watch Grade 4	Special Mention Grade 5	Substandard Grade 6	Doubtful Grade 7	Total
	(Dollars in thousands)					
Commercial	$76,751	$29,435	$837	$6,676	$—	$113,699
Commercial real estate	144,662	40,090	—	6,064	—	190,816
Commercial construction	10,085	—	—	—	—	10,085
Land and land development loans	16,981	12,774	—	1,140	—	30,895
Agriculture	75,381	14,030	1,107	4,313	—	94,831
Multifamily	2,275	8,675	—	4,321	—	15,271
Residential real estate	45,062	9,705	—	3,542	—	58,309
Residential construction	2,004	—	—	—	—	2,004
Consumer	8,192	414	5	232	—	8,843
Municipal	5,907	122	—	—	—	6,029
Loans receivable, net	$387,300	$115,245	$1,949	$26,288	$—	$530,782

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

The following table summarizes non-performing assets and classified loans at the dates indicated:

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Loans past due in excess of 90 days and still accruing	$—	$—
Non-accrual loans	4,799	6,529
Total non-performing loans	4,799	6,529
Other real estate owned (“OREO”)	4,512	4,951
Total non-performing assets (“NPAs”)	$9,311	$11,480
Classified loans (1)	$26,288	$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.

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5. Other Borrowings:
The components of other borrowings are as follows (in thousands):

	June 30, 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 3.53% at June 30, 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 3.08% at June 30, 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. In accordance with ASC 810, Consolidation, the trusts are not consolidated and the debentures and related amounts are treated as debt of Intermountain.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Net income - basic and diluted	$1,941	$782	$3,466	$1,583
Preferred stock dividend	460	481	918	947
Net income applicable to common stockholders	$1,481	$301	$2,548	$636
Denominator:				
Weighted average shares outstanding - basic	6,443,294	5,901,321	6,443,142	5,164,576
Dilutive effect of common stock options, warrants, restricted stock awards	41,468	17,867	39,234	16,533
Weighted average shares outstanding — diluted	6,484,762	5,919,188	6,482,376	5,181,109
Earnings per share — basic and diluted:				
Earnings per share — basic	$0.23	$0.05	$0.40	$0.12
Effect of dilutive common stock options, warrants, restricted stock awards	—	—	(0.01)	—
Earnings per share — diluted	$0.23	$0.05	$0.39	$0.12

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.

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At June 30, 2013 and June 30, 2012, there were 6,269 and 15,310 anti-dilutive common stock options, respectively, not included in diluted earnings per share. At June 30, 2013, and June 30, 2012, there were 65,323 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 7 "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.

7. 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 10-for-1 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 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. The reverse stock split 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.

8. Income Taxes:

For the three and six month periods ended June 30, 2013 and June 30, 2012, respectively, the Company recorded no income tax provision. In each of these 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 $15.1 million and $12.3 million as of June 30, 2013 and December 31, 2012, net of a valuation allowance of $7.5 million and $8.5

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million, respectively. The increase in the deferred tax asset at June 30, 2013 from prior periods reflected the potential tax impacts associated with a reduction in the fair value of the Company's investments available for sale during the quarter.

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 June 30, 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 $7.5 million against its deferred tax asset at June 30, 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 June 30, 2013, compared to a net deferred tax asset of $12.3 million as of December 31, 2012. The increase in the deferred tax asset at June 30, 2013 from prior periods reflected the potential tax impacts associated with a reduction in the fair value of the Company's investments available for sale during the quarter.

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 was completed. The evaluation of this impact is still being completed and will likely not be known until the Company's 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 June 30, 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.

9. 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 June 30, 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.

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The estimated fair value of the instruments as of June 30, 2013 and December 31, 2012 are as follows (in thousands):

	Fair Value Measurements as of				
		June 30, 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	$52,941	$52,941	$80,085	$80,085
Available-for-sale securities	2 & 3	256,616	256,616	280,169	280,169
Held-to-maturity securities	2	22,991	24,053	14,826	16,344
Loans held for sale	2	1,081	1,081	1,684	1,684
Loans receivable, net	3	522,740	530,204	520,768	536,003
Accrued interest receivable	2	4,463	4,463	4,320	4,320
BOLI	1	9,642	9,642	9,472	9,472
Other assets	2	2,076	2,076	2,024	2,024
Financial liabilities:					
Deposit liabilities	3	699,521	667,667	748,934	751,808
Borrowings	3	106,132	92,969	97,265	94,673
Accrued interest payable	2	316	316	1,185	1,185
Unexercised warrants	3	826	826	828	828
Other liabilities	2	179	179	328	328

Fair value is defined under ASC 820-10 as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value estimates are based on quoted market prices, if available. If quoted market prices are not available, fair value estimates are based on quoted market prices of similar assets or liabilities, or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, and risk and other assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. These amounts do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

In support of these representations, ASC 820-10 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 inputs — Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs — Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

The methods and assumptions used to estimate the fair values of each class of financial instruments are as follows:

Cash, Cash Equivalents, Federal Funds and Certificates of Deposit

The carrying value of cash, cash equivalents, federal funds sold and certificates of deposit approximates fair value due to the relatively short-term nature of these instruments.

Securities

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The fair values of securities, other than those categorized as level 3 described below, are based principally on market prices and dealer quotes. Certain fair values are estimated using pricing models or are based on comparisons to market prices of similar securities. Securities totaling $248.9 million classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtained fair value measurements from an independent pricing service and internally validated these measurements. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus, prepayment speeds, credit information and the bond's terms and conditions, among other things.

The available for sale portfolio also includes $7.8 million in super senior or senior tranche collateralized mortgage obligations not backed by a government or other agency guarantee. These securities are valued using Level 3 inputs. These securities are collateralized by fixed rate prime or Alt A mortgages, are structured to provide credit support to the senior tranches, and are carefully analyzed and monitored by management. Because of disruptions in the current market for mortgage-backed securities and collateralized mortgage obligations, an active market did not exist for these securities at June 30, 2013. This is evidenced by a significant widening in the bid-ask spread for these types of securities and the limited volume of actual trades made. As a result, less reliance can be placed on easily observable market data, such as pricing on transactions involving similar types of securities, in determining their current fair value. As such, significant adjustments were required to determine the fair value at the June 30, 2013 measurement date.

In valuing these securities, the Company utilized the same independent pricing service as for its other available-for-sale securities and internally validated these measurements. In addition, it utilized FHLB indications, which are backed by significant experience in whole-loan collateralized mortgage obligation valuation and another market source to derive independent valuations, and used this data to evaluate and adjust the original values derived. In addition to the observable market-based input including dealer quotes, market spreads, live trading levels and execution data, both the pricing service and the FHLB pricing also employed a present-value income model that considered the nature and timing of the cash flows and the relative risk of receiving the anticipated cash flows as agreed. The discount rates used were based on a risk-free rate, adjusted by a risk premium for each security. In accordance with the requirements of ASC 820-10, the Company has determined that the risk-adjusted discount rates utilized appropriately reflect the Company's best estimate of the assumptions that market participants would use in pricing the assets in a current transaction to sell the asset at the measurement date. Risks include nonperformance risk (that is, default risk and collateral value risk) and liquidity risk (that is, the compensation that a market participant receives for buying an asset that is difficult to sell under current market conditions). To the extent possible, the pricing services and the Company validated the results from these models with independently observable data.

BOLI

The fair value of BOLI is equal to the cash surrender value of the life insurance policies.

Other Assets

Other assets include FHLB stock and an interest rate swap. The fair value of stock in the FHLB equals its carrying amount since such stock is only redeemable at its par value. The fair value of the interest rate swap is discussed below.

Loans Receivable and Loans Held For Sale

The fair value of performing mortgage loans, commercial real estate, construction, consumer and commercial loans is estimated by discounting the cash flows using interest rates that consider the interest rate risk inherent in the loans and current economic and lending conditions. See the discussion below for fair valuation of impaired loans. Non-accrual loans are assumed to be carried at their current fair value and therefore are not adjusted.

Deposits

The fair values for deposits subject to immediate withdrawal such as interest and non-interest bearing checking, savings and money market deposit accounts are discounted using market rates for replacement dollars and using Company and industry statistics for decay/maturity dates. The carrying amounts for variable-rate certificates of deposit approximate their fair value at the reporting date. Fair values for fixed-rate certificates of deposit are estimated by discounting future cash flows using interest rates currently offered on time deposits with similar remaining maturities.

Borrowings

The fair value of short-term borrowing under repurchase agreements is calculated using market rates for replacements and using the Bank's funding migration analysis. The steepened yield curve as well as the fact that many agreements are currently priced below their contractual floors led to a significant decrease in fair value during 2013.

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The fair value of long-term FHLB Seattle advances and other long-term borrowings is estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements with similar remaining terms. The carrying amounts of variable rate Trust Preferred instruments approximate their fair values due to the relatively short period of time between repricing dates.

Accrued Interest

The carrying amounts of accrued interest payable and receivable approximate their fair value.

Interest Rate Swaps

The Company holds several interest rate swaps as a hedging strategy to help manage the Company's interest-rate-risk. Derivative contracts are valued by the counter party and are periodically validated by management. The counter-party determines the fair value of interest rate swaps using a discounted cash flow method based on current incremental rates for similar types of arrangements.

Unexercised Warrant Liability

A liability for unexercised warrants was created as part of the Company's capital raise in January, 2012 (see Note 7--Stockholders' Equity). The liability is carried at fair value and adjustments are made periodically through non-interest income to record changes in the fair value. The fair value is measured using warrant valuation modeling techniques, which seek to estimate the market price that the unexercised options would bring if sold. Assumptions used in calculating the value include the volatility of the underlying stock, the risk-free interest rate, the expected term of the warrants, the market price of the underlying stock and the dividend yield on the stock.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present information about the Company’s assets measured at fair value on a recurring basis as of June 30, 2013, and December 31, 2012, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands).

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Description	Total	Level 1	Level 2	Level 3
Balance, 6/30/2013				
Available-for-Sale Securities:				
Corporate Bonds	$5,944	$—	$5,944	$—
State and municipal bonds	49,466	—	49,466	—
Residential mortgage backed securities and SBA Pools	201,205	—	193,451	7,754
Other Assets — Derivative	(152)	—	—	(152)
Total Assets Measured at Fair Value	$256,463	$—	$248,861	$7,602
Other Liabilities — Derivatives	$179	$—	$—	$179
Unexercised Warrants	826	—	—	826
Total Liabilities Measured at Fair Value	$1,005	$—	$—	$1,005
Balance, 12/31/2012				
Available-for-Sale Securities:				
State and municipal bonds	$63,649	$—	$63,649	$—
Residential mortgage backed securities and SBA Pools	216,519	—	206,277	10,242
Other Assets — Derivative	(245)	—	—	(245)
Total Assets Measured at Fair Value	$279,923	$—	$269,926	$9,997
Other Liabilities — Derivatives	$328	$—	$—	$328
Unexercised Warrants	828	—	—	828
Total Liabilities Measured at Fair Value	$1,156	$—	$—	$1,156

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Quarter to Date					
	2013			2012		
Description	Residential MBS	Derivatives (net)	Unexercised Warrants	Residential MBS	Derivatives (net)	Unexercised Warrants
April 1, Balance	$8,220	$(480)	(772)	$14,118	$(752)	$ (1,007)
Total gains or losses (realized/unrealized):						
Included in earnings	(21)	149	(54)	(52)	37	157
Included in other comprehensive income	48	—	—	183	—	—
Principal Payments	(493)	—	—	(748)	—	—
Sales of Securities	—	—	—	—	—	—
Transfers in and /or out of Level 3	—	—	—	—	—	—
June 30, Balance	$7,754	$(331)	$ (826)	$13,501	$(715)	$ (850)

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Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Year to Date 2013 Residential MBS	Derivatives (net)	Unexercised Warrants	2012 Residential MBS	Derivatives (net)	Unexercised Warrants
January 1, Balance	$10,242	$(573)	(828)	$14,774	$(850)	$ —
Total gains or losses (realized/unrealized):						
Included in earnings	(22)	242	2	(323)	(411)	157
Included in other comprehensive income	229	—	—	427	546	—
Principal Payments	(833)	—	—	(1,377)	—	—
Sales of Securities	(1,862)	—	—	—	—	(1,007)
Transfers in and /or out of Level 3	—	—	—	—	—	—
June 30, Balance	$7,754	$(331)	$ (826)	$13,501	$(715)	$ (850)

The following tables present additional quantitative information about assets and liabilities measured at fair value on a recurring basis and for which the company has utilized Level 3 inputs to determine fair value, as of June 30, 2013:

Valuation
Techniques