INTERMOUNTAIN COMMUNITY BANCORP
Form 10-Q
November 13, 2012
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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 September 30, 2012
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 November 6, 2012 was 2,603,676 and the number of 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)

	September 30, 2012	December 31, 2011
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents:		
Interest-bearing	$45,015	$82,242
Non-interest bearing and vault	15,516	24,958
Restricted cash	12,710	2,668
Available-for-sale securities, at fair value	290,311	219,039
Held-to-maturity securities, at amortized cost	14,843	16,143
Federal Home Loan Bank (“FHLB”) of Seattle stock, at cost	2,290	2,310
Loans held for sale	5,070	5,561
Loans receivable, net	502,852	502,252
Accrued interest receivable	4,542	4,100
Office properties and equipment, net	36,031	37,687
Bank-owned life insurance ("BOLI")	9,387	9,127
Other intangibles	101	189
Other real estate owned (“OREO”)	5,636	6,650
Prepaid expenses and other assets	18,488	21,292
Total assets	$962,792	$934,218
LIABILITIES		
Deposits	$731,584	$729,373
Securities sold subject to repurchase agreements	56,989	85,104
Advances from Federal Home Loan Bank	29,000	29,000
Unexercised stock warrant liability	899	—
Cashier checks issued and payable	266	481
Accrued interest payable	2,124	1,676
Other borrowings	16,527	16,527
Accrued expenses and other liabilities	11,819	10,441
Total liabilities	849,208	872,602
STOCKHOLDERS’ EQUITY		
Common stock 30,000,000 shares authorized; 2,602,820 and 842,721 shares issued and 2,602,303 and 840,984 shares outstanding as of September 30, 2012 and December 31, 2011, respectively (1)	96,330	78,916
Common stock - non-voting 10,000,000 shares authorized; 3,839,684 and 0 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively (1)	31,941	—
Preferred stock, Series A, 27,000 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively; liquidation preference of $1,000 per share	26,430	26,149
Accumulated other comprehensive income, net of tax	3,724	2,370
Accumulated deficit	(44,841)	(45,819)
Total stockholders’ equity	113,584	61,616
Total liabilities and stockholders’ equity	$962,792	$934,218

(1) All share numbers have been adjusted to reflect the impact of a 1-for-10 reverse stock split, effective, October 5, 2012. See footnote 12, "Subsequent Events" for additional information.

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in thousands, except per share data)			
Interest income:				
Loans	$7,031	$8,224	$21,157	$24,990
Investments	1,896	2,385	6,016	6,897
Total interest income	8,927	10,609	27,173	31,887
Interest expense:				
Deposits	736	1,158	2,302	3,540
Other borrowings	522	643	1,769	1,843
Total interest expense	1,258	1,801	4,071	5,383
Net interest income	7,669	8,808	23,102	26,504
Provision for losses on loans	(1,154)	(2,239)	(3,688)	(6,584)
Net interest income after provision for losses on loans	6,515	6,569	19,414	19,920
Other income:				
Fees and service charges	1,702	1,692	4,946	5,226
Loan related fee income	686	524	1,927	1,644
Net gain on sale of securities	—	12	585	12
Net gain (loss) on sale of other assets	(7)	3	15	(44)
Other-than-temporary impairment (“OTTI”) losses on investments (1)	(34)	(81)	(357)	(81)
Bank-owned life insurance	86	88	260	269
Fair value adjustment on cash flow hedge	(6)	—	(300)	—
Unexercised warrant liability fair value adjustment	(49)	—	108	—
Other	174	245	572	854
Total other income	2,552	2,483	7,756	7,880
Operating expenses:				
Salaries and employee benefits	4,103	4,779	12,110	14,612
Occupancy expense	1,648	1,685	4,955	5,181
Advertising	178	188	459	532
Fees and service charges	589	687	1,840	1,971
Printing, postage and supplies	178	236	779	874
Legal and accounting	504	450	1,250	1,132
FDIC assessment	306	317	927	1,093
OREO operations	39	735	263	1,361
Other expenses	697	735	2,179	2,408
Total operating expenses	8,242	9,812	24,762	29,164
Net income (loss) before income taxes	825	(760)	2,408	(1,364)
Income tax (provision) benefit	—	—	—	—
Net income (loss)	825	(760)	2,408	(1,364)
Preferred stock dividend	482	457	1,430	1,348
Net income (loss) applicable to common stockholders	$343	$(1,217)	$978	$(2,712)
Earnings (loss) per share — basic (3)	$0.05	$(1.45)	$0.17	$(3.23)
Earnings (loss) per share — diluted (3)	$0.05	$(1.45)	$0.17	$(3.23)
Weighted average common shares outstanding — basic (3)	6,441,986	840,984	5,593,487	840,542

Weighted average common shares outstanding — diluted (2) (3)	6,458,227	840,984	5,610,026	840,542

(1) Consisting of $0, $0, $7 and $0 of total other-than-temporary impairment net losses, net of $(34), $(81), $(350) and $(81), recognized in other comprehensive income, for the three and nine months ended September 30, 2012, and September 30, 2011, respectively.

(2) Includes the weighted average number of non-voting common shares that would be outstanding if the warrants issued in the January 2012 private offering are exercised directly for 170,000 non-voting common shares, utilizing the Treasury stock method.

(3) All share numbers have been adjusted to reflect the impact of a 1-for-10 reverse stock split, effective, October 5, 2012. See footnote 12, "Subsequent Events" for additional information.

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Net income (loss)	$825	$(760)	$2,408	$(1,364)
Other comprehensive income (loss):				
Change in unrealized gains on investments, and mortgage backed securities (“MBS”) available for sale, excluding non-credit loss on impairment of securities	2,369	1,903	1,929	5,848
Realized net gains reclassified from other comprehensive income	—	—	(585)	—
Non-credit loss on impairment on available-for-sale debt securities	34	81	350	81
Less deferred income tax benefit (provision) on securities	(951)	(785)	(671)	(2,346)
Change in fair value of qualifying cash flow hedge, net of tax	—	22	330	29
Net other comprehensive income (loss)	1,452	1,221	1,353	3,612
Comprehensive income	$2,277	$461	$3,761	$2,248

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)

	Nine Months Ended September 30, 2012	2011
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income (loss)	$2,408	$(1,364)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	1,993	2,262
Stock-based compensation expense	83	168
Net amortization of premiums on securities	4,143	1,636
Provisions for losses on loans	3,688	6,584
Amortization of core deposit intangibles	88	92
(Gain) on sale of loans, investments, property and equipment	(1,842)	(666)
Impact of hedge dedesignation and current fair value adjustment	296	(101)
OTTI credit loss on available-for-sale investments	357	81
OREO valuation adjustments	(19)	928
Accretion of deferred gain on sale of branch property	(11)	(11)
Net accretion of loan and deposit discounts and premiums	(10)	13
Increase in cash surrender value of bank-owned life insurance	(260)	(269)
Change in:		
Accrued interest receivable	(441)	308
Prepaid expenses and other assets	1,848	860
Accrued interest payable and other liabilities	940	169
Accrued expenses and other cashiers checks	(215)	835
Proceeds from sale of loans originated for sale	59,517	32,378
Loans originated for sale	(57,774)	(30,650)
Net cash provided by operating activities	14,789	13,253
Cash flows from investing activities:		
Proceeds from redemption of FHLB Stock	21	—
Purchases of available-for-sale securities	(125,156)	(47,352)
Proceeds from sales, calls or maturities of available-for-sale securities	2,967	7,734
Principal payments on mortgage-backed securities	48,595	33,738
Proceeds from sales, calls or maturities of held-to-maturity securities	1,401	524
Origination of loans, net principal payments	(5,873)	22,240
Purchase of office properties and equipment	(349)	(326)
Proceeds from sale of office properties and equipment	16	—
Proceeds from sale of other real estate owned	2,628	5,136
Net change in restricted cash	(10,043)	315
Net cash provided by (used in) investing activities	(85,793)	22,009
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	32,767	6,283

Net change in certificates of deposit	(30,556)	(35,131)
Net change in repurchase agreements	(28,115)	(47,994)
Change in value of stock warrants	(108)	—
Retirement of treasury stock	—	(4)
Payoff of FHLB Advances	—	(5,000)
Net cash provided by (used in) financing activities	24,336	(81,846)
Net change in cash and cash equivalents	(46,668)	(46,584)
Cash and cash equivalents, beginning of period	107,199	144,666
Cash and cash equivalents, end of period	$60,531	$98,082
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$3,926	$5,212
Income taxes, net of tax refunds received	$—	$8
Noncash investing and financing activities:		
Loans converted to other real estate owned	$1,595	$8,912
Accrual of preferred stock dividend	$1,148	$1,083

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, 2011. 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.

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

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	Available-for-Sale				
	Amortized Cost	Cumulative Non-Credit OTTI (Losses) Recognized in OCI	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value/ Carrying Value
September 30, 2012					
State and municipal securities	$51,298	$—	$2,619	$—	$53,917
Mortgage-backed securities - Agency Pass Throughs	80,537	—	2,254	(381)	82,410
Mortgage-backed securities - Agency CMO's	117,262	—	2,427	(172)	119,517
SBA Pools	20,804	—	319	—	21,123
Mortgage-backed securities - Non Agency CMO's (investment grade)	5,042	—	476	—	5,518
Mortgage-backed securities - Non Agency CMO's (below investment grade)	9,215	(1,660)	685	(414)	7,826
	$284,158	$(1,660)	$8,780	$(967)	$290,311
December 31, 2011					
U.S. treasury securities and obligations of U.S. government agencies	$21	$—	$—	$—	$21
State and municipal securities	35,352	—	1,791	(8)	37,135
Mortgage-backed securities - Agency Pass Throughs	59,436	—	2,252	(126)	61,562
Mortgage-backed securities - Agency CMO's	103,349	—	2,526	(328)	105,547
Mortgage-backed securities - Non Agency CMO's (investment grade)	5,934	—	389	—	6,323
Mortgage-backed securities - Non Agency CMO's (below investment grade)	10,489	(2,011)	435	(462)	8,451
	$214,581	$(2,011)	$7,393	$(924)	$219,039

	Held-to-Maturity				
	Carrying Value / Amortized Cost	Cumulative Non-Credit OTTI (Losses) Recognized in OCI	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012					
State and municipal securities	$14,843	$—	$1,604	$—	$16,447
December 31, 2011					
State and municipal securities	$16,143	$—	$1,328	$—	$17,471

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	
September 30, 2012	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed securities	$55,391	$(531)	$4,536	$(436)	$59,927	$(967)

SBA Pools	—	—	—	—	—	—
State and municipal securities	—	—	—	—	—	—
Total	$55,391	$(531)	$4,536	$(436)	$59,927	$(967)

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December 31, 2011	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or Longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
State and municipal securities	$1,659	$(8)	$—	$—	$1,659	$(8)
Mortgage-backed securities & CMO's	39,905	(433)	3,993	(483)	43,898	(916)
Total	$41,564	$(441)	$3,993	$(483)	$45,557	$(924)

At September 30, 2012, 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 Amortized Cost	Fair Value	Held-to-Maturity Amortized Cost	Fair Value
One year or less	$—	$—	$504	$520
After one year through five years	3,600	3,767	1,856	2,002
After five years through ten years	—	—	8,040	8,868
After ten years	47,699	50,150	4,443	5,057
Subtotal	51,299	53,917	14,843	16,447
Mortgage-backed securities	212,055	215,271	—	—
SBA Pools	20,804	21,123	—	—
Total Securities	$284,158	$290,311	$14,843	$16,447

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 September 30, 2012, 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 nine months ended September 30, 2012 and September 30, 2011:

	2012 Held To Maturity	Available For Sale	2011 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)	—	350	—	81
Net impairment losses recognized in earnings (2)	$—	$357	$—	$81

(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 relates to two non-agency collateralized mortgage obligations. Each of these securities holds 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

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

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

	September 30, 2012			
	Loans Receivable	%	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial	$115,203	22.5 %	$7,448	$107,755
Commercial real estate	174,965	34.2	4,958	170,007
Commercial construction	2,573	0.5	—	2,573
Land and land development loans	33,814	6.6	3,538	30,276
Agriculture	87,851	17.2	2,224	85,627
Multifamily	17,849	3.5	—	17,849
Residential real estate	59,367	11.6	2,441	56,926
Residential construction	532	0.1	—	532
Consumer	9,724	1.9	198	9,526
Municipal	9,827	1.9	—	9,827
Total loans receivable	511,705	100.0 %	$20,807	$490,898
Allowance for loan losses	(9,088)			
Deferred loan fees, net of direct origination costs	235			
Loans receivable, net	$502,852			
Weighted average interest rate	5.43 %			

	December 31, 2011			
	Loans Receivable	%	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial	$110,395	21.4 %	$8,585	$101,810
Commercial real estate	167,586	32.6	10,918	156,668
Commercial construction	6,335	1.2	747	5,588
Land and land development loans	38,499	7.5	5,173	33,326
Agriculture	81,316	15.8	2,423	78,893
Multifamily	26,038	5.1	—	26,038
Residential real estate	58,861	11.4	4,013	54,848
Residential construction	2,742	0.5	—	2,742
Consumer	11,847	2.3	276	11,571
Municipal	11,063	2.2	—	11,063
Total loans receivable	514,682	100.0 %	$32,135	$482,547
Allowance for loan losses	(12,690)			
Deferred loan fees, net of direct origination costs	260			
Loans receivable, net	$502,252			
Weighted average interest rate	5.69 %			

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

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	September 30, 2012		
	Total Allowance	Individually Evaluated Allowance	Collectively Evaluated Allowance
Commercial	$3,073	$1,732	$1,341
Commercial real estate	2,728	604	2,124
Commercial construction	67	—	67
Land and land development loans	1,654	345	1,309
Agriculture	187	10	177
Multifamily	56	—	56
Residential real estate	1,042	405	637
Residential construction	13	—	13
Consumer	198	117	81
Municipal	70	—	70
Total	$9,088	$3,213	$5,875

	December 31, 2011		
	Total Allowance	Individually Evaluated Allowance	Collectively Evaluated Allowance
Commercial	$2,817	$1,300	$1,517
Commercial real estate	4,880	2,804	2,076
Commercial construction	500	252	248
Land and land development loans	2,273	728	1,545
Agriculture	172	32	140
Multifamily	91	—	91
Residential real estate	1,566	939	627
Residential construction	59	—	59
Consumer	295	195	100
Municipal	37	—	37
Total	$12,690	$6,250	$6,440

A summary of current, past due and nonaccrual loans as of September 30, 2012 is as follows, (in thousands):

	Current	30-89 Days Past Due	90 Days or More Past Due and Accruing	Nonaccrual	Total
Commercial	$112,204	$34	$—	$2,965	$115,203
Commercial real estate	173,821	123	—	1,021	174,965
Commercial construction	2,573	—	—	—	2,573
Land and land development loans	32,369	320	—	1,125	33,814
Agriculture	87,618	207	—	26	87,851
Multifamily	17,849	—	—	—	17,849
Residential real estate	58,539	341	—	487	59,367
Residential construction	532	—	—	—	532
Consumer	9,653	59	—	12	9,724
Municipal	9,827	—	—	—	9,827

Total	$504,985	$1,084	$—	$5,636	$511,705

A summary of current, past due and nonaccrual loans as of December 31, 2011 is as follows, (in thousands):

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	Current	30-89 Days Past Due	90 Days or More Past Due and Accruing	Nonaccrual	Total
Commercial	$106,509	$200	$—	$3,686	$110,395
Commercial real estate	164,578	705	—	2,303	167,586
Commercial construction	6,289	—	—	46	6,335
Land and land development loans	35,835	12	—	2,652	38,499
Agriculture	81,129	—	—	187	81,316
Multifamily	26,038	—	—	—	26,038
Residential real estate	58,037	423	—	401	58,861
Residential construction	2,742	—	—	—	2,742
Consumer	11,739	91	—	17	11,847
Municipal	11,063	—	—	—	11,063
Total	$503,959	$1,431	$—	$9,292	$514,682

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

	September 30, 2012			December 31, 2011		
Troubled Debt Restructurings	Nonaccrual	Accrual	Total	Nonaccrual	Accrual	Total
Commercial	$40	$330	$370	$571	$371	$942
Commercial real estate	339	458	797	382	1,889	2,271
Commercial construction	—	—	—	295	46	341
Land and land development loans	—	1,309	1,309	794	782	1,576
Agriculture	—	110	110	—	22	.22
Residential real estate	—	249	249	1,377	—	1,377
Consumer	—	38	38	64	27	91
Total	$379	$2,494	$2,873	$3,483	$3,137	$6,620

A modified loan is considered a TDR when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. Modified terms are dependent upon the financial position and needs of the individual borrower, as the Company does not employ modification programs for temporary or trial periods. The most common types of modifications include interest rate adjustments, covenant modifications, forbearance and/or other concessions. If the modification agreement is violated, the loan is handled by the Company's Special Assets group for resolution, which may result in foreclosure or other asset disposition.

Generally, TDRs are classified as impaired loans and are TDRs for the remaining life of the loan. Impaired and TDR classification may be removed if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring.

The Company's loans that were modified in the three and nine month period ended September 30, 2012 and 2011 and considered a TDR are as follows (dollars in thousands):

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	Three Months Ended September 30, 2012			Nine Months Ended September 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	1	38	38	1	38	38
Agriculture	—	—	—	1	110	110
	1	$ 38	$ 38	4	323	323

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	1	$ 79	$ 79	3	1,821	1,821
Land and land development loans	3	$ 205	$ 205	8	2,467	2,466
Agriculture	—	$ —	$ —	1	58	58
Residential real estate	1	$ 8	$ 8	7	945	945
Residential construction	—	—	—	1	123	123
Consumer	—	—	—	5	128	128
	5	$ 292	$ 292	25	5,542	5,541

The balances below provide information as to how the loans were modified as TDRs during the three and nine months ended September 30, 2012 and 2011, (in thousands).

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Adjusted Interest Rate Only	Other*	Adjusted Interest Rate Only	Other*
Commercial	$—	$—	$75	$—
Commercial real estate	—	—	—	100
Land and land development loans	38	—	38	—
Agriculture	—	—	110	—
	$38	$—	$223	$100

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

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	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Adjusted Interest Rate Only	Other*	Adjusted Interest Rate Only	Other*
Commercial	$79	$—	$79	$1,742
Land and land development loans	$205	$—	$455	$2,011
Agriculture	$—	$—	$—	$58
Residential real estate	$8	$—	$912	$33
Residential construction	—	—	—	123
Consumer	—	—	128	—
	$292	$—	$1,574	$3,967

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

As of September 30, 2012, the Company had specific reserves of $113,000 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 nine month periods ended September 30, 2012 and 2011 are as follows:

	Allowance for Loan Losses for the three months ended September 30, 2012				
	Balance, Beginning of Quarter	Charge-Offs Jul 1 through Sep 30, 2012	Recoveries Jul 1 through Sep 30, 2012	Provision	Balance, End of Quarter
	(Dollars in thousands)				
Commercial	$2,429	$(403)	$39	$1,008	$3,073
Commercial real estate	4,032	(1,577)	239	34	2,728
Commercial construction	94	—	3	(30)	67
Land and land development loans	1,565	(64)	7	146	1,654
Agriculture	207	—	23	(43)	187
Multifamily	57	—	—	(1)	56
Residential real estate	1,601	(506)	12	(65)	1,042
Residential construction	4	—	—	9	13
Consumer	201	(100)	27	70	198
Municipal	43	—	—	27	70
Allowance for loan losses	$10,233	$(2,650)	$350	$1,155	$9,088

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	Allowance for Loan Losses for the nine months ended September 30, 2012				
	Balance, Beginning of Year	Charge-Offs Jan 1 through Sep 30, 2012	Recoveries Jan 1 through Sep 30 2012	Provision	Balance, End of Period
	(Dollars in thousands)				
Commercial	$2,817	$(2,160)	$369	$2,047	$3,073
Commercial real estate	4,880	(3,555)	453	950	2,728
Commercial construction	500	(243)	8	(198)	67
Land and land development loans	2,273	(1,247)	275	353	1,654
Agriculture	172	(32)	92	(45)	187
Multifamily	91	—	—	(35)	56
Residential real estate	1,566	(1,171)	126	521	1,042
Residential construction	59	—	7	(53)	13
Consumer	295	(355)	142	116	198
Municipal	37	—	—	33	70
Allowance for loan losses	$12,690	$(8,763)	$1,472	$3,689	$9,088

	Allowance for Loan Losses for the three months ended September 30, 2011				
	Balance, Beginning of Quarter	Charge-Offs Jul 1 through Sep 30, 2011	Recoveries Jul 1 through Sep 30, 2011	Provision	Balance, End of Quarter
	(Dollars in thousands)				
Commercial	$2,782	$(399)	$320	$48	$2,751
Commercial real estate	5,086	(156)	36	597	5,563
Commercial construction	728	—	—	(6)	722
Land and land development loans	2,046	(1,068)	42	1,079	2,099
Agriculture	909	—	2	(109)	802
Multifamily	90	—	—	5	95
Residential real estate	1,324	(289)	53	555	1,643
Residential construction	119	—	—	(39)	80
Consumer	577	(130)	31	106	584
Municipal	26	—	—	2	28
Allowances for loan losses	$13,687	$(2,042)	$484	$2,238	$14,367

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Allowance for Loan Losses
for the nine months ended September 30, 2011

	Balance, Beginning of Year	Charge-Offs Jul 1 through Sep 30, 2011	Recoveries Jul 1 through Sep 30, 2011	Provision	Balance, End of Period
	(Dollars in thousands)				
Commercial	$2,925	$(1,202)	$580	$448	$2,751
Commercial real estate	3,655	(835)	185	2,558	5,563
Commercial construction	540	—	—	182	722
Land and land development loans	2,408	(2,661)	344	2,008	2,099
Agriculture	779	(332)	49	306	802
Multifamily	83	—	—	12	95
Residential real estate	1,252	(687)	113	965	1,643
Residential construction	65	(18)	—	33	80
Consumer	613	(321)	113	179	584
Municipal	135	—	—	(107)	28
Allowances for loan losses	$12,455	$(6,056)	$1,384	$6,584	$14,367

Allowance for Unfunded Commitments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
			(Dollars in thousands)	
Beginning of period	$15	$14	$13	$17
Adjustment	(2)	2	—	(1)
Allowance — Unfunded Commitments at end of period	$13	$16	$13	$16

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 six 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:

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	Impaired Loans					
	September 30, 2012			December 31, 2011		
	Recorded Investment	Principal Balance	Related Allowance	Recorded Investment	Principal Balance	Related Allowance
	(Dollars in thousands)					
With an allowance recorded:						
Commercial	$4,312	$4,573	$1,732	$2,942	$3,323	$1,300
Commercial real estate	3,710	3,918	604	7,439	8,732	2,804
Commercial construction	—	—	—	747	902	252
Land and land development loans	2,650	3,518	345	1,745	3,237	728
Agriculture	31	31	10	32	405	32
Multifamily	—	—	—	—	—	—
Residential real estate	1,177	1,179	405	1,928	2,165	939
Residential construction	—	—	—	—	—	—
Consumer	169	170	117	247	264	195
Municipal	—	—	—	—	—	—
Total	$12,049	$13,389	$3,213	$15,080	$19,028	$6,250
Without an allowance recorded:						
Commercial	$3,136	$4,913	$—	$5,643	$9,099	$—
Commercial real estate	1,248	2,066	—	3,479	5,038	—
Commercial construction	—	—	—	—	198	—
Land and land development loans	888	1,085	—	3,428	6,165	—
Agriculture	2,193	2,193	—	2,391	2,512	—
Multifamily	—	—	—	—	—	—
Residential real estate	1,264	1,367	—	2,085	2,296	—
Residential construction	—	—	—	—	—	—
Consumer	29	55	—	29	56	—
Municipal	—	—	—	—	—	—
Total	$8,758	$11,679	$—	$17,055	$25,364	$—
Total:						
Commercial	$7,448	$9,486	$1,732	$8,585	$12,422	$1,300
Commercial real estate	4,958	5,984	604	10,918	13,770	2,804
Commercial construction	—	—	—	747	1,100	252
Land and land development loans	3,538	4,603	345	5,173	9,402	728
Agriculture	2,224	2,224	10	2,423	2,917	32
Multifamily	—	—	—	—	—	—
Residential real estate	2,441	2,546	405	4,013	4,461	939
Residential construction	—	—	—	—	—	—
Consumer	198	225	117	276	320	195
Municipal	—	—	—	—	—	—
Total	$20,807	$25,068	$3,213	$32,135	$44,392	$6,250

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	Impaired Loans			
	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized (*)	Average Recorded Investment	Interest Income Recognized (*)
	(Dollars in thousands)			
With an allowance recorded:				
Commercial	$3,078	$292	$3,156	$250
Commercial real estate	5,132	233	7,289	674
Commercial construction	300	—	781	60
Land and land development loans	2,103	170	2,979	289
Agriculture	24	3	176	20
Multifamily	—	—	—	—
Residential real estate	1,697	63	1,461	114
Residential construction	—	—	36	28
Consumer	215	13	487	33
Municipal	—	—	—	—
Total	$12,549	$774	$16,365	$1,468
Without an allowance recorded:				
Commercial	$5,224	$403	$7,995	$963
Commercial real estate	2,275	177	5,230	392
Commercial construction	74	—	372	24
Land and land development loans	2,019	167	5,163	411
Agriculture	2,277	98	1,489	312
Multifamily	—	—	—	—
Residential real estate	1,589	98	2,047	112
Residential construction	—	—	153	—
Consumer	33	5	228	7
Municipal	—	—	—	—
Total	$13,491	$948	$22,677	$2,221
Total:				
Commercial	$8,302	$695	$11,151	$1,213
Commercial real estate	7,407	410	12,519	1,066
Commercial construction	374	—	1,153	84
Land and land development loans	4,122	337	8,142	700
Agriculture	2,301	101	1,665	332
Multifamily	—	—	—	—
Residential real estate	3,286	161	3,508	226
Residential construction	—	—	189	28
Consumer	248	18	715	40
Municipal	—	—	—	—
Total	$26,040	$1,722	$39,042	$3,689

(*) Interest Income on individually impaired loans is calculated using the cash-basis method, using year to date interest on loans outstanding at 9/30/12.

Loan Risk Factors

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

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Commercial Loans: Although the impacts of the long economic downturn have increased losses and 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: Difficult economic conditions and depressed 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 20.2%, industrial 15.4%, health care 12.0% and retail 8.4%. The other 44.0% 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. Finished condominiums comprise only 2.0% of the commercial real estate portfolio.

While 63.6% 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 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 current 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 weakness continues to negatively impact results.

Construction and Development Loans: After the aggressive reduction efforts of the last three years, the land development and construction loan components pose much lower concentration risk for the total 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. Management is maintaining its aggressive resolution efforts to further reduce its 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 $87.9 million or 17.2% 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 very strong and are projected to remain solid for the next couple years. 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 $17.8 million or 3.5% 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 $69.6 million or 13.6% of the total loan portfolio. Management does not believe they represent significant concentration risk. However, continuing high unemployment and loss of equity is putting pressure on segments of this portfolio, particularly home equity lines and second mortgages.

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Municipal loans: Municipal loans comprise $9.8 million or 1.9% 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.

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 six months and more frequently for larger or more troubled loans.
Other measurements used to assess credit quality, including delinquency statistics, non accrual 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
September 30, 2012

	Satisfactory Grade 1-3	Internal Watch Grade 4	Special Mention Grade 5	Substandard Grade 6	Doubtful Grade 7	Total
	(Dollars in thousands)					
Commercial	$84,355	$22,159	$—	$8,689	$—	$115,203
Commercial real estate	117,363	49,468	—	8,134	—	174,965
Commercial construction	2,535	38	—	—	—	2,573
Land and land development loans	15,050	14,691	—	4,073	—	33,814
Agriculture	69,099	16,449	—	2,303	—	87,851
Multifamily	2,314	9,423	—	6,112	—	17,849
Residential real estate	45,879	10,320	—	3,168	—	59,367
Residential construction	532	—	—	—	—	532
Consumer	8,631	824	—	269	—	9,724
Municipal	9,672	155	—	—	—	9,827
Loans receivable, net	$355,430	$123,527	$—	$32,748	$—	$511,705

Loan Portfolio Credit Grades by Type
December 31, 2011

	Satisfactory Grade 1-3	Internal Watch Grade 4	Special Mention Grade 5	Substandard Grade 6	Doubtful Grade 7	Total
	(Dollars in thousands)					
Commercial	$65,843	$32,293	$—	$12,259	$—	$110,395
Commercial real estate	107,984	43,305	—	16,297	—	167,586
Commercial construction	413	5,175	—	747	—	6,335
Land and land development loans	8,658	20,031	1,392	8,418	—	38,499
Agriculture	65,563	12,827	—	2,926	—	81,316
Multifamily	9,721	9,708	—	6,609	—	26,038
Residential real estate	43,419	10,066	—	5,376	—	58,861
Residential construction	2,742	—	—	—	—	2,742
Consumer	10,476	797	—	574	—	11,847
Municipal	11,063	—	—	—	—	11,063
Loans receivable, net	$325,882	$134,202	$1,392	$53,206	$—	$514,682

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

	September 30, 2012	December 31, 2011
	(Dollars in thousands)	
Loans past due in excess of 90 days and still accruing	$—	$—
Non-accrual loans	5,636	9,292
Total non-performing loans	5,636	9,292
Other real estate owned (“OREO”)	5,636	6,650
Total non-performing assets (“NPAs”)	$11,272	$15,942
Classified loans (1)	$32,748	$53,206

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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Classified loans include non-performing loans and performing substandard loans where management believes that the loans may not return principal and interest per their original contractual terms. A loan that is classified may not necessarily result in a loss.

4. 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		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(Dollars in thousands)		(Dollars in thousands)	
Balance, beginning of period	$5,267	$ 7,818	$6,650	$ 4,429
Additions to OREO	900	797	1,595	8,912
Proceeds from sale of OREO	(580)	(734)	(2,628)	(5,134)
Valuation Adjustments in the period (1)	49	(503)	19	(829)
Balance, end of period, September 30	$5,636	$ 7,378	$5,636	$ 7,378

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

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

	September 30, 2012		December 31, 2011	
Single family residence	$122	2.2 %	$166	2.5 %
Developed residential lots	1,308	23.2 %	2,048	30.8 %
Commercial buildings	435	7.7 %	483	7.3 %
Raw land	3,771	66.9 %	3,953	59.4 %
Total OREO	$5,636	100.0 %	$6,650	100.0 %

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

5. Advances from the Federal Home Loan Bank of Seattle:

Panhandle State Bank, the banking subsidiary of Intermountain, has a credit line with FHLB of Seattle that allows it to borrow funds up to a percentage of its total assets, subject to collateralization requirements. Certain loans are used as collateral for these borrowings. At September 30, 2012 and December 31, 2011, this credit line represented a total borrowing capacity of $116.5 million and $100.3 million, of which $85.4 million and $69.3 million was available, respectively. The advances from FHLB at September 30, 2012 and December 31, 2011 are repayable as follows (in thousands):

	September 30, 2012		December 31, 2011	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Due within 1 year	$25,000	2.06 %	$25,000	2.06 %
Due in 1 to 2 years	—	—		—
Due in 2 to 3 years	4,000	3.11	4,000	3.11
Due in 3 to 4 years	—	—	—	—

Due in 4 to 5 years	—	—		—	—	
	$29,000	2.20	%	$29,000	2.20	%

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Only member institutions have access to funds from the Federal Home Loan Banks. As a condition of membership, Panhandle is required to hold FHLB stock. As of September 30, 2012 and December 31, 2011, Panhandle held $2.3 million of FHLB stock. During the third quarter of 2012, the FHLB of Seattle repurchased $20,500 of its stock from the Company, but have announced that they would not pay dividends until further notice. Each FHLB continues to monitor its capital and other relevant financial measures as a basis for determining a resumption of dividends at some later date.

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

	September 30, 2012	December 31, 2011
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 September 30, 2012. The debt is callable by the Company quarterly and matures in March 2033. See Note A and B 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 September 30, 2012. 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 and B 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.

B) To conserve the liquid assets of the parent Company, the Company's Board of Directors decided to defer regularly scheduled interest payments on its outstanding Junior Subordinated Debentures related to its Trust Preferred Securities ("TRUPS Debentures") beginning in December 2009. The Company is permitted to defer payments of interest on the TRUPS Debentures for up to 20 consecutive quarterly periods without default. During the deferral period, the Company may not pay any dividends or distributions on, or redeem, purchase or acquire, or make a liquidation payment with respect to the Company's capital stock, or make any payment of principal or interest on, or repay, repurchase or redeem any debt securities of the Company that rank equally or junior to the TRUPS Debentures. In light of the Company's recent capital raise and improved financial performance, the Company now anticipates paying the deferred interest on the TRUPS as early as the fourth quarter of 2012.

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

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	Three Months Ended		Nine Months Ended	
	2012	2011	2012	2011
Numerator:				
Net income (loss) - basic and diluted	$825	$(760)	$2,408	$(1,364)
Preferred stock dividend	482	457	1,430	1,348
Net income (loss) applicable to common stockholders	$343	$(1,217)	$978	$(2,712)
Denominator:				
Weighted average shares outstanding - basic	6,441,986	840,984	5,593,487	840,542
Dilutive effect of common stock options, warrants, restricted stock awards	16,241	—	16,539	—
Weighted average shares outstanding — diluted	6,458,227	840,984	5,610,026	840,542
Earnings (loss) per share — basic and diluted:				