GLACIER BANCORP INC
Form 10-Q
November 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

¨ 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 000-18911

GLACIER BANCORP, INC.
(Exact name of registrant as specified in its charter)

MONTANA	81-0519541
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
49 Commons Loop, Kalispell, Montana	59901
(Address of principal executive offices)	(Zip Code)

(406) 756-4200
Registrant’s telephone number, including area code
Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

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. ý Yes No ¨
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). ý Yes No ¨
Indicate by checkmark 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.

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No

The number of shares of Registrant's common stock outstanding on October 20, 2014 was 75,024,092. No preferred shares are issued or outstanding.

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GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except per share data)	September 30, 2014	December 31, 2013
Assets		
Cash on hand and in banks	$ 109,947	109,995
Federal funds sold	488	10,527
Interest bearing cash deposits	171,662	35,135
Cash and cash equivalents	282,097	155,657
Investment securities, available-for-sale	2,398,196	3,222,829
Investment securities, held-to-maturity (fair values of $513,142 and $0)	482,757	—
Total investment securities	2,880,953	3,222,829
Loans held for sale	65,598	46,738
Loans receivable	4,459,099	4,062,838
Allowance for loan and lease losses	(130,632)	(130,351)
Loans receivable, net	4,328,467	3,932,487
Premises and equipment, net	178,509	167,671
Other real estate owned	28,374	26,860
Accrued interest receivable	42,981	41,898
Deferred tax asset	44,452	43,549
Core deposit intangible, net	11,617	9,512
Goodwill	129,706	129,706
Non-marketable equity securities	52,868	52,192
Other assets	64,188	55,251
Total assets	$ 8,109,810	7,884,350
Liabilities		
Non-interest bearing deposits	$ 1,595,971	1,374,419
Interest bearing deposits	4,510,840	4,205,548
Securities sold under agreements to repurchase	367,213	313,394
Federal Home Loan Bank advances	366,866	840,182
Other borrowed funds	7,351	8,387
Subordinated debentures	125,669	125,562
Accrued interest payable	3,058	3,505
Other liabilities	92,362	50,103
Total liabilities	7,069,330	6,921,100
Stockholders’ Equity		
Preferred shares, $0.01 par value per share, 1,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value per share, 117,187,500 shares authorized	750	744
Paid-in capital	707,821	690,918
Retained earnings - substantially restricted	309,234	261,943
Accumulated other comprehensive income	22,675	9,645
Total stockholders’ equity	1,040,480	963,250
Total liabilities and stockholders’ equity	$ 8,109,810	7,884,350
Number of common stock shares issued and outstanding	75,024,092	74,373,296

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)	Three Months ended September 30, 2014	Three Months ended September 30, 2013	Nine Months ended September 30, 2014	Nine Months ended September 30, 2013
Interest Income				
Residential real estate loans	$7,950	7,320	22,257	21,606
Commercial loans	37,387	34,291	107,696	92,788
Consumer and other loans	7,559	8,447	22,785	24,220
Investment securities	22,794	19,473	71,002	51,023
Total interest income	75,690	69,531	223,740	189,637
Interest Expense				
Deposits	3,027	3,398	9,177	10,584
Securities sold under agreements to repurchase	225	209	627	646
Federal Home Loan Bank advances	2,356	2,730	7,317	8,029
Federal funds purchased and other borrowed funds	34	54	135	160
Subordinated debentures	788	795	2,342	2,410
Total interest expense	6,430	7,186	19,598	21,829
Net Interest Income	69,260	62,345	204,142	167,808
Provision for loan losses	360	1,907	1,721	5,085
Net interest income after provision for loan losses	68,900	60,438	202,421	162,723
Non-Interest Income				
Service charges and other fees	14,319	13,711	40,085	36,115
Miscellaneous loan fees and charges	1,342	1,408	3,571	3,650
Gain on sale of loans	6,000	7,021	14,373	23,582
Loss on sale of investments	(61)	(403)	(160)	(299)
Other income	2,832	2,136	8,455	6,997
Total non-interest income	24,432	23,873	66,324	70,045
Non-Interest Expense				
Compensation and employee benefits	30,142	27,469	87,764	76,963
Occupancy and equipment	6,961	6,421	20,307	18,152
Advertising and promotions	2,141	1,897	5,866	5,066
Outsourced data processing	1,472	1,232	4,792	2,870
Other real estate owned	602	1,049	1,675	4,901
Regulatory assessments and insurance	1,435	1,677	4,055	4,843
Core deposit intangibles amortization	692	693	2,095	1,684
Other expense	10,793	9,930	30,427	27,804
Total non-interest expense	54,238	50,368	156,981	142,283
Income Before Income Taxes	39,094	33,943	111,764	90,485
Federal and state income tax expense	9,800	8,315	27,063	21,387
Net Income	$29,294	25,628	84,701	69,098
Basic earnings per share	$0.40	0.35	1.14	0.95
Diluted earnings per share	$0.40	0.35	1.14	0.95
Dividends declared per share	$0.17	0.15	0.50	0.44
Average outstanding shares - basic	74,631,317	73,945,523	74,512,806	72,804,321
Average outstanding shares - diluted	74,676,124	74,021,871	74,554,263	72,869,475

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	Three Months ended		Nine Months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net Income	$ 29,294	25,628	84,701	69,098
Other Comprehensive (Loss) Income, Net of Tax				
Unrealized (losses) gains on available-for-sale securities	(2,764)	(21,600)	32,553	(77,285)
Reclassification adjustment for losses included in net income	61	403	182	299
Net unrealized (losses) gains on available-for-sale securities	(2,703)	(21,197)	32,735	(76,986)
Tax effect	1,049	8,246	(12,687)	29,948
Net of tax amount	(1,654)	(12,951)	20,048	(47,038)
Unrealized gains (losses) on derivatives used for cash flow hedges	201	(735)	(11,468)	14,827
Tax effect	(78)	287	4,450	(5,768)
Net of tax amount	123	(448)	(7,018)	9,059
Total other comprehensive (loss) income, net of tax	(1,531)	(13,399)	13,030	(37,979)
Total Comprehensive Income	$ 27,763	12,229	97,731	31,119

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months ended September 30, 2014 and 2013

	Common Stock					
(Dollars in thousands, except per share data)	Shares	Amount	Paid-in Capital	Retained Earnings Substantially Restricted	Accumulated Other Compre-hensive Income	Total
Balance at December 31, 2012	71,937,222	$ 719	641,737	210,531	47,962	900,949
Comprehensive income	—	—	—	69,098	(37,979)	31,119
Cash dividends declared ($0.44 per share)	—	—	—	(32,299)	—	(32,299)
Stock issuances under stock incentive plans	227,597	2	3,500	—	—	3,502
Stock issued in connection with acquisitions	2,143,132	22	45,011	—	—	45,033
Stock-based compensation and related taxes	—	—	(497)	—	—	(497)
Balance at September 30, 2013	74,307,951	$ 743	689,751	247,330	9,983	947,807
Balance at December 31, 2013	74,373,296	$ 744	690,918	261,943	9,645	963,250
Comprehensive income	—	—	—	84,701	13,030	97,731
Cash dividends declared ($0.50 per share)	—	—	—	(37,410)	—	(37,410)
Stock issuances under stock incentive plans	95,064	1	757	—	—	758
Stock issued in connection with acquisition	555,732	5	15,122	—	—	15,127
Stock-based compensation and related taxes	—	—	1,024	—	—	1,024
Balance at September 30, 2014	75,024,092	$ 750	707,821	309,234	22,675	1,040,480

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months ended September 30, 2014	September 30, 2013
Operating Activities		
Net income	$ 84,701	69,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,721	5,085
Net amortization of investment securities premiums and discounts	21,239	55,043
Loans held for sale originated or acquired	(498,118)	(760,860)
Proceeds from sales of loans held for sale	504,518	904,066
Gain on sale of loans	(14,373)	(23,582)
Loss on sale of investments	160	299
Bargain purchase gain	(680)	—
Stock-based compensation expense, net of tax benefits	652	800
Excess tax deficiencies from stock-based compensation	14	219
Depreciation of premises and equipment	8,706	7,408
(Gain) loss on sale of other real estate owned and writedowns, net	(1,096)	1,276
Amortization of core deposit intangibles	2,095	1,684
Net decrease (increase) in accrued interest receivable	254	(2,628)
Net (increase) decrease in other assets	(1,373)	3,459
Net decrease in accrued interest payable	(530)	(1,290)
Net increase in other liabilities	12,908	12,526
Net cash provided by operating activities	120,798	272,603
Investing Activities		
Sales of available-for-sale securities	162,930	181,971
Maturities, prepayments and calls of available-for-sale securities	476,286	1,494,957
Purchases of available-for-sale securities	(126,666)	(1,321,504)
Maturities, prepayments and calls of held-to-maturity securities	8,930	—
Purchases of held-to-maturity securities	(11,250)	—
Principal collected on loans	993,806	854,553
Loans originated or acquired	(1,273,235)	(1,121,384)
Net addition of premises and equipment and other real estate owned	(9,463)	(6,861)
Proceeds from sale of other real estate owned	12,644	18,131
Net sale of non-marketable equity securities	801	583
Net cash (paid) received in acquisitions	(2,112)	26,155
Net cash provided by investing activities	232,671	126,601

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)	Nine Months ended September 30, 2014	September 30, 2013
Financing Activities		
Net increase (decrease) in deposits	$ 217,203	(301,759)
Net increase in securities sold under agreements to repurchase	53,819	24,805
Net decrease in Federal Home Loan Bank advances	(473,316)	(35,098)
Net decrease in other borrowed funds	(929)	(1,458)
Cash dividends paid	(24,629)	(21,153)
Excess tax deficiencies from stock-based compensation	(14)	(219)
Proceeds from stock options exercised	837	3,322
Net cash used in financing activities	(227,029)	(331,560)
Net increase in cash and cash equivalents	126,440	67,644
Cash and cash equivalents at beginning of period	155,657	187,040
Cash and cash equivalents at end of period	$ 282,097	254,684
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$ 20,128	23,120
Cash paid during the period for income taxes	23,504	17,283
Supplemental Disclosure of Non-Cash Investing Activities		
Transfer of investment securities from available-for-sale to held-to-maturity	$ 484,583	—
Sale and refinancing of other real estate owned	665	3,549
Transfer of loans to other real estate owned	8,995	13,091
Acquisitions		
Fair value of common stock shares issued	15,127	45,033
Cash consideration for outstanding shares	16,690	24,858
Fair value of assets acquired	349,167	630,569
Liabilities assumed	316,670	560,678

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

General
Glacier Bancorp, Inc. (“Company”) is a Montana corporation headquartered in Kalispell, Montana. The Company provides a full range of banking services to individual and corporate customers in Montana, Idaho, Wyoming, Colorado, Utah and Washington through thirteen divisions of its wholly-owned bank subsidiary, Glacier Bank (“Bank”). The Company offers a wide range of banking products and services, including transaction and savings deposits, real estate, commercial, agriculture and consumer loans and mortgage origination services. The Company serves individuals, small to medium-sized businesses, community organizations and public entities.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the Company’s financial condition as of September 30, 2014, the results of operations and comprehensive income for the three and nine month periods ended September 30, 2014 and 2013, and changes in stockholders’ equity and cash flows for the nine month periods ended September 30, 2014 and 2013. The condensed consolidated statement of financial condition of the Company as of December 31, 2013 has been derived from the audited consolidated statements of the Company as of that date.

The accompanying unaudited condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results anticipated for the year ending December 31, 2014.

The Company is a defendant in legal proceedings arising in the normal course of business. In the opinion of management, the disposition of pending litigation will not have a material affect on the Company’s consolidated financial position, results of operations or liquidity.

Material estimates that are particularly susceptible to significant change include: 1) the determination of the allowance for loan and lease losses (“ALLL” or “allowance”), 2) the valuation of investment securities, 3) the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and 3) the evaluation of goodwill impairment. For the determination of the ALLL and real estate valuation estimates, management obtains independent appraisals (new or updated) for significant items. Estimates relating to investment valuations are obtained from independent third parties. Estimates relating to the evaluation of goodwill for impairment are determined based on internal calculations using significant independent party inputs.

Principles of Consolidation
The consolidated financial statements of the Company include the parent holding company and the Bank. The Bank consists of thirteen bank divisions, a treasury division and an information technology division. The treasury division includes the Bank’s investment security portfolio and wholesale borrowings and the information technology division includes the Bank’s internal data processing and information technology expenses. Each of the Bank divisions operate under separate names, management teams and directors. The Company considers the Bank to be its sole operating segment as the Bank 1) engages in similar bank business activity from which it earns revenues and incurs expenses, 2) the operating results of the Bank are regularly reviewed by the Chief Executive Officer (i.e., the chief operating

decision maker) who makes decisions about resources to be allocated to the Bank, and 3) financial information is available for the Bank. All significant inter-company transactions have been eliminated in consolidation.

In May 2013, the Company acquired Wheatland Bankshares, Inc. and its wholly-owned subsidiary, First State Bank, a community bank based in Wheatland, Wyoming. In July 2013, the Company completed its acquisition of North Cascades Bancshares, Inc. and its wholly-owned subsidiary, North Cascades National Bank, a community bank based in Chelan, Washington. In August 2014, the Company completed its acquisition of FNBR Holding Corporation ("FNBR") and its wholly-owned subsidiary, First National Bank of the Rockies, a community bank based in Grand Junction, Colorado. The transactions were accounted for using the acquisition method, and their results of operations have been included in the Company's consolidated financial statements as of the acquisition dates.

The Company formed GBCI Other Real Estate (“GORE”) to isolate certain bank foreclosed properties for legal protection and administrative purposes and the remaining properties are currently held for sale. GORE is included in the Bank operating segment due to its insignificant activity.

The Company owns the following trust subsidiaries, each of which issued trust preferred securities as Tier 1 capital instruments: Glacier Capital Trust II, Glacier Capital Trust III, Glacier Capital Trust IV, Citizens (ID) Statutory Trust I, Bank of the San Juans Bancorporation Trust I, First Company Statutory Trust 2001 and First Company Statutory Trust 2003. The trust subsidiaries are not included in the Company’s consolidated financial statements.

Variable Interest Entities

The Company has equity investments in Certified Development Entities (“CDE”) which have received allocations of New Markets Tax Credits (“NMTC”). The Company also has equity investments in Low-Income Housing Tax Credit (“LIHTC”) partnerships. The CDEs and the LIHTC partnerships are variable interest entities (“VIE”).

The following table summarizes the carrying amounts of the VIE’s assets and liabilities included in the Company’s consolidated financial statements at September 30, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
(Dollars in thousands)	CDE (NMTC)	LIHTC	CDE (NMTC)	LIHTC
Assets				
Loans receivable	$ 36,077	—	36,039	—
Premises and equipment, net	—	13,220	—	13,536
Accrued interest receivable	113	—	117	—
Other assets	672	184	843	153
Total assets	$ 36,862	13,404	36,999	13,689
Liabilities				
Other borrowed funds	$ 4,555	1,690	4,555	1,723
Accrued interest payable	4	5	4	5
Other liabilities	94	—	151	189
Total liabilities	$ 4,653	1,695	4,710	1,917

Amounts presented in the table above are adjusted for intercompany eliminations. All assets presented can be used only to settle obligations of the consolidated VIEs and all liabilities presented consist of liabilities for which creditors and other beneficial interest holders therein have no recourse to the general credit of the Company.

Loans Receivable

Loans that are intended to be held-to-maturity are reported at the unpaid principal balance less net charge-offs and adjusted for deferred fees and costs on originated loans and unamortized premiums or discounts on acquired loans. Fees and costs on originated loans and premiums or discounts on acquired loans are deferred and subsequently amortized or accreted as a yield adjustment over the expected life of the loan utilizing the interest method. The objective of the interest method is to calculate periodic interest income at a constant effective yield. When a loan is paid off prior to maturity, the remaining fees and costs on originated loans and premiums or discounts on acquired loans are immediately recognized into interest income.

The Company's loan segments, which are based on the purpose of the loan, include residential real estate, commercial, and consumer loans. The Company's loan classes, a further disaggregation of segments, include residential real estate loans (residential real estate segment), commercial real estate and other commercial loans (commercial segment), and home equity and other consumer loans (consumer segment).

Loans that are thirty days or more past due based on payments received and applied to the loan are considered delinquent. Loans are designated non-accrual and the accrual of interest is discontinued when the collection of the contractual principal or interest is unlikely. A loan is typically placed on non-accrual when principal or interest is due and has remained unpaid for ninety days or more. When a loan is placed on non-accrual status, interest previously accrued but not collected is reversed against current period interest income. Subsequent payments on non-accrual loans are applied to the outstanding principal balance if doubt remains as to the ultimate collectability of the loan. Interest accruals are not resumed on partially charged-off impaired loans. For other loans on nonaccrual, interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

The Company considers impaired loans to be the primary credit quality indicator for monitoring the credit quality of the loan portfolio. Loans are designated impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement and, therefore, the Company has serious doubts as to the ability of such borrowers to fulfill the contractual obligation. Impaired loans include non-performing loans (i.e., non-accrual loans and accruing loans ninety days or more past due) and accruing loans under ninety days past due where it is probable payments will not be received according to the loan agreement (e.g., troubled debt restructuring). Interest income on accruing impaired loans is recognized using the interest method. The Company measures impairment on a loan-by-loan basis in the same manner for each class within the loan portfolio. An insignificant delay or shortfall in the amounts of payments would not cause a loan or lease to be considered impaired. The Company determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the facts and circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest due.

A restructured loan is considered a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. A TDR loan is considered an impaired loan and a specific valuation allowance is established when the fair value of the collateral-dependent loan or present value of the loan's expected future cash flows (discounted at the loan's effective interest rate based on the original contractual rate) is lower than the carrying value of the impaired loan. The Company has made the following types of loan modifications, some of which were considered a TDR:

- Reduction of the stated interest rate for the remaining term of the debt;
- Extension of the maturity date(s) at a stated rate of interest lower than the current market rate for newly originated debt having similar risk characteristics; and
- Reduction of the face amount of the debt as stated in the debt agreements.

The Company recognizes that while borrowers may experience deterioration in their financial condition, many continue to be creditworthy customers who have the willingness and capacity for debt repayment. In determining whether non-restructured or unimpaired loans issued to a single or related party group of borrowers should continue to accrue interest when the borrower has other loans that are impaired or are TDRs, the Company on a quarterly or more frequent basis performs an updated and comprehensive assessment of the willingness and capacity of the borrowers to timely and ultimately repay their total debt obligations, including contingent obligations. Such analysis takes into account current financial information about the borrowers and financially responsible guarantors, if any, including for example:

- analysis of global, i.e., aggregate debt service for total debt obligations;
- assessment of the value and security protection of collateral pledged using current market conditions and alternative market assumptions across a variety of potential future situations; and
- loan structures and related covenants.

For additional information relating to loans, see Note 3.

Allowance for Loan and Lease Losses
Based upon management's analysis of the Company's loan portfolio, the balance of the ALLL is an estimate of probable credit losses known and inherent within the Bank's loan portfolio as of the date of the consolidated financial statements. The ALLL is analyzed at the loan class level and is maintained within a range of estimated losses. Determining the adequacy of the ALLL involves a high degree of judgment and is inevitably imprecise as the risk of loss is difficult to quantify. The determination of the ALLL and the related provision for loan losses is a critical accounting estimate that involves management's judgments about all known relevant internal and external environmental factors that affect loan losses. The balance of the ALLL is highly dependent upon management's evaluations of borrowers' current and prospective performance, appraisals and other variables affecting the quality of the loan portfolio. Individually significant loans and major lending areas are reviewed periodically to determine potential problems at an early date. Changes in management's estimates and assumptions are reasonably possible and may have a material impact upon the Company's consolidated financial statements, results of operations or capital.

Risk characteristics considered in the ALLL analysis applicable to each loan class within the Company's loan portfolio are as follows:

Residential Real Estate. Residential real estate loans are secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans is impacted by economic conditions within the Company's market areas that affect the value of the property securing the loans and affect the borrowers' personal incomes. Mitigating risk factors for this loan class include a large number of borrowers, geographic dispersion of market areas and the loans are originated for relatively smaller amounts.

Commercial Real Estate. Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operation of the property securing the loan and / or the business conducted on the property securing the loan. Credit risk in these loans is impacted by the creditworthiness of a borrower, valuation of the property securing the loan and conditions within the local economies in the Company's diverse, geographic market areas.

Commercial. Commercial loans consist of loans to commercial customers for use in financing working capital needs, equipment purchases and business expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations across the Company's diverse, geographic market areas.

Home Equity. Home equity loans consist of junior lien mortgages and first and junior lien lines of credit (revolving open-end and amortizing closed-end) secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans is impacted by economic conditions within the Company's market areas that affect the value of the residential property securing the loans and affect the borrowers' personal incomes. Mitigating risk factors for this loan class are a large number of borrowers, geographic dispersion of market areas and the loans are originated for terms that range from 10 years to 15 years.

Other Consumer. The other consumer loan portfolio consists of various short-term loans such as automobile loans and loans for other personal purposes. Repayment of these loans is primarily dependent on the personal income of the borrowers. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's diverse, geographic market area) and the creditworthiness of a borrower.

The ALLL consists of a specific valuation allowance component and a general valuation allowance component. The specific component relates to loans that are determined to be impaired and individually evaluated for impairment. The Company measures impairment on a loan-by-loan basis based on the present value of expected future cash flows discounted at the loan's effective interest rate, except when it is determined that repayment of the loan is expected to be provided solely by the underlying collateral. For impairment based on expected future cash flows, the Company considers all information available as of a measurement date, including past events, current conditions, potential prepayments, and estimated cost to sell when such costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. For alternative ranges of cash flows, the likelihood of the possible outcomes is considered in determining the best estimate of expected future cash flows. The effective interest rate for a loan restructured in a TDR is based on the original contractual rate. For collateral-dependent loans and real estate loans for which foreclosure or a deed-in-lieu of foreclosure is probable, impairment is measured by the fair value of the collateral, less estimated cost to sell. The fair value of the collateral is determined primarily based upon appraisal or evaluation of the underlying real property value.

The general valuation allowance component relates to probable credit losses inherent in the balance of the loan portfolio based on historical loss experience, adjusted for changes in trends and conditions of qualitative or environmental factors. The historical loss experience is based on the previous twelve quarters loss experience by loan class adjusted for risk characteristics in the existing loan portfolio. The same trends and conditions are evaluated for each class within the loan portfolio; however, the risk characteristics are weighted separately at the individual class level based on the Company's judgment and experience.

The changes in trends and conditions evaluated for each class within the loan portfolio include the following:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in global, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in experience, ability, and depth of lending management and other relevant staff;
- Changes in the volume and severity of past due and nonaccrual loans;
- Changes in the quality of the Company's loan review system;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company's existing portfolio.

The ALLL is increased by provisions for loan losses which are charged to expense. The portions of loan balances determined by management to be uncollectible are charged-off as a reduction of the ALLL and recoveries of amounts previously charged-off are credited as an increase to the ALLL. The Company's charge-off policy is consistent with bank regulatory standards. Consumer loans generally are charged off when the loan becomes over 120 days delinquent. Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until such time as it is sold.

At acquisition date, the assets and liabilities of acquired banks are recorded at their estimated fair values which results in no ALLL carried over from acquired banks. Subsequent to acquisition, an allowance will be recorded on the acquired loan portfolios for further credit deterioration, if any.

Impact of Recent Authoritative Accounting Guidance

The Accounting Standards Codification™ ("ASC") is the Financial Accounting Standards Board's ("FASB") officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under the authority of the federal securities laws are also sources of authoritative GAAP for the Company as an SEC registrant. All other accounting literature is non-authoritative.

In August 2014, FASB amended FASB ASC Subtopic 310-40, Receivables - Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The amendment requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) The loan has a government guarantee that is not separable from the loan before foreclosure. 2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim. 3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendment is effective for public business entities for interim and annual periods

beginning after December 15, 2014. An entity can elect to adopt the amendments using either a prospective transition method or a modified retrospective method as defined in the amendment. The Company is currently evaluating the impact of the adoption of this amendment, but does not expect it to have a material effect on the Company's financial position or results of operations.

In June 2014, FASB amended FASB ASC Topic 860, Transfers and Servicing. The amendments in this Update require the following two accounting changes: 1) change the accounting for repurchase-to-maturity transactions to secured borrowing accounting and 2) for repurchase finance arrangements, require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in a secured borrowing accounting for the repurchase agreement. The amendments also require certain disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The accounting changes are effective for public business entities for the first interim or annual reporting periods beginning after December 15, 2014. Early application for public business entities is not permitted. The disclosure changes for repurchase agreements are effective for public business entities for annual reporting periods beginning after December 15, 2014. The Company is currently evaluating the impact of the adoption of the amendments, but does not expect them to have a material effect on the Company's financial position or results of operations.

In May 2014, FASB amended FASB ASC Topic 606, Revenue from Contracts with Customers. The amendments clarify the principals for recognizing revenue and develop a common revenue standard among industries. The new guidance establishes the following core principal: recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. Five steps are provided for a company or organization to follow to achieve such core principle. The new guidance also includes a cohesive set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within the reporting period. Early application is not permitted. The entity should apply the amendments using one of two retrospective methods described in the amendment. The Company is currently evaluating the impact of the adoption of the amendments, but does not expect them to have a material effect on the Company's financial position or results of operations.

In January 2014, FASB amended FASB ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors. The amendment clarifies that an in substance repossession foreclosure occurs when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either 1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or 2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires interim and annual disclosure of both 1) the amount of foreclosed residential real estate property held by the creditor and 2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendment is effective for public business entities for interim and annual periods beginning after December 15, 2014. An entity can elect to adopt the amendments using either a modified retrospective transition method or a prospective transition method as defined in the amendment. The Company is currently evaluating the impact of the adoption of this amendment, but does not expect it to have a material effect on the Company's financial position or results of operations.

In January 2014, FASB amended FASB ASC Topic 323, Investments - Equity Method and Joint Ventures. The amendments permit entities to make an accounting policy election for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. The amendments should be applied retrospectively to all periods presented and are effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently evaluating the impact of the adoption of the amendments, but does not expect them to

have a material effect on the Company's financial position or results of operations.

Note 2. Investment Securities

Effective January 1, 2014, the Company reclassified state and local government securities with a fair value of approximately $484,583,000, inclusive of a net unrealized gain of $4,624,000, from available-for-sale classification to held-to-maturity classification. The Company considers the held-to-maturity classification of these investment securities to be appropriate as it has the positive intent and ability to hold these securities to maturity.

The following tables present the amortized cost, the gross unrealized gains and losses and the fair value of the Company's investment securities:

	September 30, 2014			
	Amortized Cost	Gross Unrealized		Fair Value
(Dollars in thousands)		Gains	Losses	
Available-for-sale				
U.S. government sponsored enterprises	$ 9,200	82	—	9,282
State and local governments	901,474	39,244	(3,944)	936,774
Corporate bonds	338,353	3,382	(204)	341,531
Residential mortgage-backed securities	1,102,546	12,948	(4,885)	1,110,609
Total available-for-sale	2,351,573	55,656	(9,033)	2,398,196
Held-to-maturity				
State and local governments	482,757	33,754	(3,369)	513,142
Total held-to-maturity	482,757	33,754	(3,369)	513,142
Total investment securities	$ 2,834,330	89,410	(12,402)	2,911,338

	December 31, 2013			
	Amortized Cost	Gross Unrealized		Fair Value
(Dollars in thousands)		Gains	Losses	
Available-for-sale				
U.S. government sponsored enterprises	$ 10,441	187	—	10,628
State and local governments	1,377,347	31,621	(23,890)	1,385,078
Corporate bonds	440,337	3,922	(1,758)	442,501
Residential mortgage-backed securities	1,380,816	14,071	(10,265)	1,384,622
Total available-for-sale	3,208,941	49,801	(35,913)	3,222,829
Total investment securities	$ 3,208,941	49,801	(35,913)	3,222,829

Included in the residential mortgage-backed securities are $97,000 and $2,602,000 as of September 30, 2014 and December 31, 2013, respectively, of non-guaranteed private label whole loan mortgage-backed securities of which none of the underlying collateral is considered "subprime."

The following table presents the amortized cost and fair value of available-for-sale and held-to-maturity securities by contractual maturity at September 30, 2014. Actual maturities may differ from expected or contractual maturities since borrowers have the right to prepay obligations with or without prepayment penalties.

	September 30, 2014			
	Available-for-Sale		Held-to-Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due within one year	$ 114,022	114,789	—	—
Due after one year through five years	410,860	416,380	—	—
Due after five years through ten years	72,388	74,851	—	—
Due after ten years	651,757	681,567	482,757	513,142
	1,249,027	1,287,587	482,757	513,142
Residential mortgage-backed securities [1]	1,102,546	1,110,609	—	—
Total	$ 2,351,573	2,398,196	482,757	513,142

[1] Residential mortgage-backed securities, which have prepayment provisions, are not assigned to maturity categories due to fluctuations in their prepayment speeds.

Gain or loss on sale of investment securities consists of the following:

	Three Months ended		Nine Months ended	
(Dollars in thousands)	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Available-for-sale				
Gross proceeds	$ 166,577	102,483	200,277	181,971
Less amortized cost [1]	(166,638)	(102,886)	(200,459)	(182,270)
Net loss on sale of available-for-sale investment securities	$ (61)	(403)	(182)	(299)
Gross gain on sale of investments	$ 160	3,467	341	3,723
Gross loss on sale of investments	(221)	(3,870)	(523)	(4,022)
Net loss on sale of available-for-sale investment securities	$ (61)	(403)	(182)	(299)
Held-to-maturity [2]				
Gross proceeds	$ 5,006	—	8,936	—
Less amortized cost [1]	(5,006)	—	(8,914)	—
Net gain on sale of held-to-maturity investment securities	$ —	—	22	—
Gross gain on sale of investments	$ —	—	22	—
Gross loss on sale of investments	—	—	—	—
Net gain on sale of held-to-maturity investment securities	$ —	—	22	—

[1] The cost of each investment security sold is determined by specific identification.

[2] The gain or loss on sale of held-to-maturity investment securities is solely due to securities that were partially or wholly called.

Investment securities with an unrealized loss position are summarized as follows:

	September 30, 2014					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. government sponsored enterprises	$ 22	—	—	—	22	—
State and local governments	43,206	(443)	154,709	(3,501)	197,915	(3,944)
Corporate bonds	27,361	(120)	8,312	(84)	35,673	(204)
Residential mortgage-backed securities	115,529	(762)	196,743	(4,123)	312,272	(4,885)
Total available-for-sale	$ 186,118	(1,325)	359,764	(7,708)	545,882	(9,033)
Held-to-maturity						
State and local governments	$ 1,566	(24)	92,150	(3,345)	93,716	(3,369)
Total held-to-maturity	$ 1,566	(24)	92,150	(3,345)	93,716	(3,369)

	December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. government sponsored enterprises	$ 3	—	—	—	3	—
State and local governments	408,812	(17,838)	74,161	(6,052)	482,973	(23,890)
Corporate bonds	129,515	(1,672)	1,702	(86)	131,217	(1,758)
Residential mortgage-backed securities	457,611	(10,226)	1,993	(39)	459,604	(10,265)
Total available-for-sale	$ 995,941	(29,736)	77,856	(6,177)	1,073,797	(35,913)

Based on an analysis of its investment securities with unrealized losses as of September 30, 2014 and December 31, 2013, the Company determined that none of such securities had other-than-temporary impairment and the unrealized losses were primarily the result of interest rate changes and market spreads subsequent to acquisition. The fair value of the investment securities is expected to recover as payments are received and the securities approach maturity. At September 30, 2014, management determined that it did not intend to sell investment securities with unrealized losses, and there was no expected requirement to sell any of its investment securities with unrealized losses before recovery of their amortized cost.

Note 3. Loans Receivable, Net

The Company’s loan portfolio is comprised of three segments: residential real estate, commercial and consumer and other loans. The loan segments are further disaggregated into the following classes: residential real estate, commercial real estate, other commercial, home equity and other consumer loans. The following tables are presented for each portfolio class of loans receivable and provide information about the ALLL, loans receivable, impaired loans and TDRs.

The following schedules summarize the activity in the ALLL:

	Three Months ended September 30, 2014					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Balance at beginning of period	$ 130,636	14,624	68,929	29,589	9,725	7,769
Provision for loan losses	360	374	(1,072)	758	900	(600)
Charge-offs	(2,243)	—	(944)	(579)	(607)	(113)
Recoveries	1,879	42	650	997	86	104
Balance at end of period	$ 130,632	15,040	67,563	30,765	10,104	7,160

	Three Months ended September 30, 2013					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Balance at beginning of period	$ 130,883	14,797	73,885	24,116	9,626	8,459
Provision for loan losses	1,907	950	381	385	125	66
Charge-offs	(3,077)	(42)	(1,235)	(1,065)	(333)	(402)
Recoveries	1,052	45	367	385	73	182
Balance at end of period	$ 130,765	15,750	73,398	23,821	9,491	8,305

	Nine Months ended September 30, 2014					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Balance at beginning of period	$ 130,351	14,067	70,332	28,630	9,299	8,023
Provision for loan losses	1,721	1,111	(3,261)	3,025	1,411	(565)
Charge-offs	(5,567)	(413)	(1,208)	(2,328)	(906)	(712)
Recoveries	4,127	275	1,700	1,438	300	414
Balance at end of period	$ 130,632	15,040	67,563	30,765	10,104	7,160

	Nine Months ended September 30, 2013					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Balance at beginning of period	$ 130,854	15,482	74,398	21,567	10,659	8,748
Provision for loan losses	5,085	464	(51)	3,964	566	142
Charge-offs	(8,962)	(391)	(2,538)	(2,817)	(1,962)	(1,254)
Recoveries	3,788	195	1,589	1,107	228	669
Balance at end of period	$ 130,765	15,750	73,398	23,821	9,491	8,305

The following schedules disclose the ALLL and loans receivable:

	September 30, 2014					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Individually evaluated for impairment	$ 10,150	993	2,092	5,546	518	1,001
Collectively evaluated for impairment	120,482	14,047	65,471	25,219	9,586	6,159
Total allowance for loan and lease losses	$ 130,632	15,040	67,563	30,765	10,104	7,160
Loans receivable						
Individually evaluated for impairment	$ 172,619	20,016	110,272	29,749	7,460	5,122
Collectively evaluated for impairment	4,286,480	583,790	2,166,010	942,498	378,221	215,961
Total loans receivable	$ 4,459,099	603,806	2,276,282	972,247	385,681	221,083

	December 31, 2013					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Individually evaluated for impairment	$ 11,949	990	3,763	6,155	265	776
Collectively evaluated for impairment	118,402	13,077	66,569	22,475	9,034	7,247
Total allowance for loan and lease losses	$ 130,351	14,067	70,332	28,630	9,299	8,023
Loans receivable						
Individually evaluated for impairment	$ 199,680	24,070	119,526	41,504	9,039	5,541
Collectively evaluated for impairment	3,863,158	553,519	1,929,721	810,532	357,426	211,960
Total loans receivable	$ 4,062,838	577,589	2,049,247	852,036	366,465	217,501

Substantially all of the Company’s loans receivable are with customers in the Company’s geographic market areas. Although the Company has a diversified loan portfolio, a substantial portion of its customers’ ability to honor their obligations is dependent upon the economic performance in the Company’s market areas. Net deferred fees, costs, premiums, and discounts of $14,277,000 and $10,662,000 were included in the loans receivable balance at September 30, 2014 and December 31, 2013, respectively.

The following schedules disclose the impaired loans:

	At or for the Three or Nine Months ended September 30, 2014					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$46,179	5,178	21,890	15,582	979	2,550
Unpaid principal balance	47,161	5,421	22,303	15,739	1,088	2,610
Specific valuation allowance	10,150	993	2,092	5,546	518	1,001
Average balance - three months	49,813	4,986	22,239	19,092	995	2,501
Average balance - nine months	55,251	5,822	23,860	21,998	995	2,576
Loans without a specific valuation allowance						
Recorded balance	$126,440	14,838	88,382	14,167	6,481	2,572
Unpaid principal balance	156,922	15,893	111,162	19,170	7,956	2,741
Average balance - three months	128,534	15,131	89,840	13,727	7,079	2,757
Average balance - nine months	131,888	15,609	91,741	14,045	7,532	2,961
Totals						
Recorded balance	$172,619	20,016	110,272	29,749	7,460	5,122
Unpaid principal balance	204,083	21,314	133,465	34,909	9,044	5,351
Specific valuation allowance	10,150	993	2,092	5,546	518	1,001
Average balance - three months	178,347	20,117	112,079	32,819	8,074	5,258
Average balance - nine months	187,139	21,431	115,601	36,043	8,527	5,537

	At or for the Year ended December 31, 2013					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$61,503	7,233	23,917	27,015	886	2,452
Unpaid principal balance	63,406	7,394	25,331	27,238	949	2,494
Specific valuation allowance	11,949	990	3,763	6,155	265	776
Average balance	59,823	7,237	26,105	22,460	767	3,254
Loans without a specific valuation allowance						
Recorded balance	$138,177	16,837	95,609	14,489	8,153	3,089
Unpaid principal balance	169,082	18,033	119,017	19,156	9,631	3,245
Average balance	139,129	18,103	95,808	14,106	8,844	2,268
Totals						
Recorded balance	$199,680	24,070	119,526	41,504	9,039	5,541
Unpaid principal balance	232,488	25,427	144,348	46,394	10,580	5,739
Specific valuation allowance	11,949	990	3,763	6,155	265	776
Average balance	198,952	25,340	121,913	36,566	9,611	5,522

Interest income recognized on impaired loans for the periods ended September 30, 2014 and December 31, 2013 was not significant.

The following is a loans receivable aging analysis:

(Dollars in thousands)	September 30, 2014 Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$12,454	524	6,353	3,122	1,626	829
Accruing loans 60-89 days past due	5,116	1,760	994	1,660	431	271
Accruing loans 90 days or more past due	1,617	869	367	331	27	23
Non-accrual loans	68,149	6,592	45,862	7,571	6,513	1,611
Total past due and non-accrual loans	87,336	9,745	53,576	12,684	8,597	2,734
Current loans receivable	4,371,763	594,061	2,222,706	959,563	377,084	218,349
Total loans receivable	$4,459,099	603,806	2,276,282	972,247	385,681	221,083

(Dollars in thousands)	December 31, 2013 Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$25,761	10,367	7,016	3,673	2,432	2,273
Accruing loans 60-89 days past due	6,355	1,055	2,709	1,421	668	502
Accruing loans 90 days or more past due	604	429	—	160	5	10
Non-accrual loans	81,956	10,702	51,438	10,139	7,950	1,727
Total past due and non-accrual loans	114,676	22,553	61,163	15,393	11,055	4,512
Current loans receivable	3,948,162	555,036	1,988,084	836,643	355,410	212,989
Total loans receivable	$4,062,838	577,589	2,049,247	852,036	366,465	217,501

The following is a summary of the TDRs that occurred during the periods presented and the TDRs that occurred within the previous twelve months that subsequently defaulted during the periods presented:

(Dollars in thousands)	Three Months ended September 30, 2014 Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	12	—	8	3	—	1
Pre-modification recorded balance	$8,681	—	8,361	309	—	11
Post-modification recorded balance	$8,681	—	8,361	309	—	11
Troubled debt restructurings that subsequently defaulted						
Number of loans	3	—	2	1	—	—
Recorded balance	$1,620	—	927	693	—	—

(Dollars in thousands)	Three Months ended September 30, 2013					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	9	2	4	—	1	2
Pre-modification recorded balance	$ 2,926	284	2,481	—	57	104
Post-modification recorded balance	$ 3,141	499	2,481	—	57	104
Troubled debt restructurings that subsequently defaulted						
Number of loans	2	—	—	2	—	—
Recorded balance	$ 363	—	—	363	—	—

(Dollars in thousands)	Nine Months ended September 30, 2014					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	38	—	16	18	2	2
Pre-modification recorded balance	$ 32,957	—	12,793	19,908	242	14
Post-modification recorded balance	$ 32,320	—	12,836	19,228	242	14
Troubled debt restructurings that subsequently defaulted						
Number of loans	7	—	2	5	—	—
Recorded balance	$ 1,676	—	927	749	—	—

(Dollars in thousands)	Nine Months ended September 30, 2013					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	50	9	17	17	2	5
Pre-modification recorded balance	$ 12,016	1,907	7,137	2,572	147	253
Post-modification recorded balance	$ 12,418	2,293	7,137	2,588	147	253
Troubled debt restructurings that subsequently defaulted						
Number of loans	10	1	4	5	—	—
Recorded balance	$ 2,772	265	1,918	589	—	—

During the nine months ended September 30, 2014, 66 percent of the modifications were due to extensions of maturity dates and 17 percent were due to a combination of interest rate reductions, extensions of maturity dates, or reductions in the face amount. During that same period, approximately 90 percent of the modifications in the other commercial loan class, the class with the largest dollar amount of TDRs during the period, were due to extensions of maturity dates. During the nine months ended September 30, 2013, 59 percent of modifications were due to extensions of maturity dates and 17 percent were due to a combination of interest rate reductions, extensions of maturity dates, or reductions in the face amount. During that same period of the prior year, 63 percent of the modifications in the commercial real estate loan class, the class with the largest dollar amount of TDRs during the period, were due to extensions of maturity dates and 25 percent were due to a combination of interest rate reductions, extension of maturity dates, or reductions in the face amount.

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In addition to the TDRs that occurred during the period provided in the preceding table, the Company had TDRs with pre-modification loan balances of $10,178,000 and $14,695,000 for the nine months ended September 30, 2014 and 2013, respectively, for which other real estate owned ("OREO") was received in full or partial satisfaction of the loans. The majority of such TDRs were in commercial real estate for the nine months ended September 30, 2014 and 2013.

Note 4. Goodwill

The Company performed its annual goodwill impairment test during the third quarter of 2014 and determined the fair value of the aggregated reporting units exceeded the carrying value, such that the Company's goodwill was not considered impaired. Changes in the economic environment, operations of the aggregated reporting units, or other factors could result in the decline in the fair value of the aggregated reporting units which could result in a goodwill impairment in the future.

The following schedule discloses the changes in the carrying value of goodwill:

(Dollars in thousands)	Three Months ended		Nine Months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net carrying value at beginning of period	$ 129,706	119,509	129,706	106,100
Acquisitions	—	10,197	—	23,606
Net carrying value at end of period	$ 129,706	129,706	129,706	129,706

The gross carrying value of goodwill and the accumulated impairment charge consists of the following:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Gross carrying value	$ 169,865	169,865
Accumulated impairment charge	(40,159)	(40,159)
Net carrying value	$ 129,706	129,706

Note 5. Derivatives and Hedging Activities

As of September 30, 2014, the Company's interest rate swap derivative financial instruments were designated as cash flow hedges and are summarized as follows:

(Dollars in thousands)	Forecasted Notional Amount	Variable Interest Rate [1]	Fixed Interest Rate [1]	Term [2]
Interest rate swap	$ 160,000	3 month LIBOR	3.378 %	Oct. 21, 2014 - Oct. 21, 2021
Interest rate swap	100,000	3 month LIBOR	2.498 %	Nov 30, 2015 - Nov. 30, 2022

[1] The Company pays the fixed interest rate and the counterparties pay the Company the variable interest rate.
[2] No cash will be exchanged prior to the term.

The hedging strategy converts the LIBOR based variable interest rate on forecasted borrowings to a fixed interest rate, thereby protecting the Company from floating interest rate variability.

The following table discloses the offsetting of financial assets and interest rate swap derivative assets:

	September 30, 2014			December 31, 2013		
(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Assets Presented in the Statements of Financial Position	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Assets Presented in the Statements of Financial Position
Interest rate swaps	$ 1,930	(1,930)	—	6,844	(4,948)	1,896

The following table discloses the offsetting of financial liabilities and interest rate swap derivative liabilities:

	September 30, 2014			December 31, 2013		
(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Liabilities Presented in the Statements of Financial Position	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Liabilities Presented in the Statements of Financial Position
Interest rate swaps	$ 11,502	(1,930)	9,572	4,948	(4,948)	—

Pursuant to the interest rate swap agreements, the Company pledged collateral to the counterparties in the form of investment securities totaling $12,908,000 at September 30, 2014. There was $0 collateral pledged from the counterparties to the Company as of September 30, 2014. There is the possibility that the Company may need to pledge additional collateral in the future if there were declines in the fair value of the interest rate swap derivative financial instruments versus the collateral pledged.

Note 6. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Unrealized gains on available-for-sale securities	$ 46,623	13,888
Tax effect	(18,090)	(5,403)
Net of tax amount	28,533	8,485
Unrealized (losses) gains on derivatives used for cash flow hedges	(9,572)	1,896
Tax effect	3,714	(736)
Net of tax amount	(5,858)	1,160
Total accumulated other comprehensive income	$ 22,675	9,645

Note 7. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period presented. Diluted earnings per share is computed by including the net increase in shares as if dilutive outstanding stock options were exercised and restricted stock awards were vested, using the treasury stock method.

Basic and diluted earnings per share has been computed based on the following:

(Dollars in thousands, except per share data)	Three Months ended		Nine Months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net income available to common stockholders, basic and diluted	$ 29,294	25,628	84,701	69,098
Average outstanding shares - basic	74,631,317	73,945,523	74,512,806	72,804,321
Add: dilutive stock options and awards	44,807	76,348	41,457	65,154
Average outstanding shares - diluted	74,676,124	74,021,871	74,554,263	72,869,475
Basic earnings per share	$ 0.40	0.35	1.14	0.95
Diluted earnings per share	$ 0.40	0.35	1.14	0.95

There were 0 and 49,932 options excluded from the diluted average outstanding share calculation for the nine months ended September 30, 2014 and 2013, respectively, due to the option exercise price exceeding the market price of the Company’s common stock.

Note 8. Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Transfers in and out of Level 1 (quoted prices in active markets), Level 2 (significant other observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date. There were no transfers between fair value hierarchy levels during the nine month periods ended September 30, 2014 and 2013.

Recurring Measurements
The following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended September 30, 2014.

Investment securities, available-for-sale: fair value for available-for-sale securities is estimated by obtaining quoted market prices for identical assets, where available. If such prices are not available, fair value is based on independent asset pricing services and models, the inputs of which are market-based or independently sourced market parameters, including but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. Where Level 1 or Level 2 inputs are not available, such securities are classified as Level 3 within the hierarchy.

Fair value determinations of available-for-sale securities are the responsibility of the Company's corporate accounting and treasury departments. The Company obtains fair value estimates from independent third party vendors on a monthly basis. The Company reviews the vendors' inputs for fair value estimates and the recommended assignments of levels within the fair value hierarchy. The review includes the extent to which markets for investment securities are determined to have limited or no activity, or are judged to be active markets. The Company reviews the extent to which observable and unobservable inputs are used as well as the appropriateness of the underlying assumptions about risk that a market participant would use in active markets, with adjustments for limited or inactive markets. In considering the inputs to the fair value estimates, the Company places less reliance on quotes that are judged to not reflect orderly transactions, or are non-binding indications. In assessing credit risk, the Company reviews payment performance, collateral adequacy, third party research and analyses, credit rating histories and issuers' financial statements. For those markets determined to be inactive or limited, the valuation techniques used are models for which management has verified that discount rates are appropriately adjusted to reflect illiquidity and credit risk. The Company also independently obtains cash flow estimates that are stressed at levels that exceed those used by the independent third party pricing vendors.

Interest rate swap derivative financial instruments: fair values for interest rate swap derivative financial instruments are based upon the estimated amounts to settle the contracts considering current interest rates and are calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. The inputs used to determine fair value include the 3 month LIBOR forward curve to estimate variable rate cash inflows and the Fed Funds Effective Swap Rate to estimate the discount rate. The estimated variable rate cash inflows are compared to the fixed rate outflows and such difference is discounted to a present value to estimate the fair value of the interest rate swaps. The Company also obtains and compares the reasonableness of the pricing from an independent third party.

The following schedules disclose the fair value measurement of assets and liabilities measured at fair value on a recurring basis:

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Fair Value September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities, available-for-sale				
U.S. government sponsored enterprises	$ 9,282	—	9,282	—
State and local governments	936,774	—	936,774	—
Corporate bonds	341,531	—	341,531	—
Residential mortgage-backed securities	1,110,609	—	1,110,609	—
Total assets measured at fair value on a recurring basis	$ 2,398,196	—	2,398,196	—
Interest rate swaps	$ 9,572	—	9,572	—
Total liabilities measured at fair value on a recurring basis	$ 9,572	—	9,572	—

(Dollars in thousands)	Fair Value December 31, 2013	Fair Value Measurements At the End of the Reporting Period Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities, available-for-sale				
U.S. government sponsored enterprises	$ 10,628	—	10,628	—
State and local governments	1,385,078	—	1,385,078	—
Corporate bonds	442,501	—	442,501	—
Residential mortgage-backed securities	1,384,622	—	1,384,622	—
Interest rate swaps	1,896	—	1,896	—
Total assets measured at fair value on a recurring basis	$ 3,224,725	—	3,224,725	—

Non-recurring Measurements
The following is a description of the inputs and valuation methodologies used for assets recorded at fair value on a non-recurring basis, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended September 30, 2014.

Other real estate owned: OREO is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell. Estimated fair value of OREO is based on appraisals or evaluations (new or updated). OREO is classified within Level 3 of the fair value hierarchy.

Collateral-dependent impaired loans, net of ALLL: loans included in the Company’s loan portfolio for which it is probable that the Company will not collect all principal and interest due according to contractual terms are considered impaired. Estimated fair value of collateral-dependent impaired loans is based on the fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company’s credit departments review appraisals for OREO and collateral-dependent loans, giving consideration to the highest and best use of the collateral. The appraisal or evaluation (new or updated) is considered the starting point for determining fair value. The valuation techniques used in preparing appraisals or evaluations (new or updated) include the cost approach, income approach, sales comparison approach, or a combination of the preceding valuation techniques. The key inputs used to determine the fair value of the collateral-dependent loans and OREO include selling costs, discounted cash flow rate or capitalization rate, and adjustment to comparables. Valuations and significant inputs obtained by independent sources are reviewed by the Company for accuracy and reasonableness. The Company also considers other factors and events in the environment that may affect the fair value. The appraisals or evaluations (new or updated) are reviewed at least quarterly and more frequently based on current market conditions, including deterioration in a borrower’s financial condition and when property values may be subject to significant volatility. After review and acceptance of the collateral appraisal or evaluation (new or updated), adjustments to the impaired loan or OREO may occur. The Company generally obtains appraisals or evaluations (new or updated) annually.

The following schedules disclose the fair value measurement of assets with a recorded change during the period resulting from re-measuring the assets at fair value on a non-recurring basis:

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Fair Value September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 1,309	—	—	1,309
Collateral-dependent impaired loans, net of ALLL	14,689	—	—	14,689
Total assets measured at fair value on a non-recurring basis	$ 15,998	—	—	15,998

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Fair Value December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 10,888	—	—	10,888
Collateral-dependent impaired loans, net of ALLL	18,670	—	—	18,670
Total assets measured at fair value on a non-recurring basis	$ 29,558	—	—	29,558

Non-recurring Measurements Using Significant Unobservable Inputs (Level 3)
The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Fair Value	Quantitative Information about Level 3 Fair Value Measurements		
(Dollars in thousands)	September 30, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average) [1]
Other real estate owned	$ 529	Sales comparison approach	Selling costs	8.0% - 10.0% (8.2%)
			Adjustment to comparables	0.0% - 7.0% (0.8%)
	780	Combined approach	Selling costs	10.0% - 10.0% (10.0%)
			Discount rate	10.0% - 10.0% (10.0%)
	$ 1,309			
Collateral-dependent impaired loans, net of ALLL	$ 76	Cost approach	Selling costs	6.0% - 6.0% (6.0%)
	5,364	Income approach	Selling costs	8.0% - 10.0% (8.5%)
			Discount rate	8.3% - 12.0% (9.1%)
	6,939	Sales comparison approach	Selling costs	0.0% - 10.0% (8.2%)
	2,310	Combined approach	Selling costs	8.0% - 10.0% (8.7%)
			Adjustment to comparables	5.0% - 10.0% (8.2%)
	$ 14,689			

	Fair Value	Quantitative Information about Level 3 Fair Value Measurements		
(Dollars in thousands)	December 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted-Average) [1]
Other real estate owned	$ 9,278	Sales comparison approach	Selling costs	7.0% - 10.0% (7.7%)
			Adjustment to comparables	0.0% - 37.5% (1.4%)
	1,610	Combined approach	Selling costs	5.0% - 10.0% (7.5%)
			Discount rate	8.5% - 8.5% (8.5%)
			Adjustment to comparables	25.0% - 25.0% (25.0%)
	$ 10,888			
Collateral-dependent impaired loans, net of ALLL	$ 4,076	Income approach	Selling costs	8.0% - 8.0% (8.0%)
			Discount rate	8.3% - 8.3% (8.3%)
	11,784	Sales comparison approach	Selling costs	0.0% - 10.0% (7.9%)
			Adjustment to comparables	0.0% - 1.0% (0.0%)
	2,810	Combined approach	Selling costs	0.0% - 8.0% (7.8%)
			Discount rate	7.3% - 7.3% (7.3%)

	Adjustment to comparables	10.0% - 50.0% (18.9%)
$ 18,670		

[1] The range for selling costs and adjustments to comparables indicate reductions to the fair value.

Fair Value of Financial Instruments
The following is a description of the methods used to estimate the fair value of all other assets and liabilities recognized at amounts other than fair value.

Cash and cash equivalents: fair value is estimated at book value.

Investment securities, held-to-maturity: fair value for held-to-maturity securities is estimated in the same manner as available-for-sale securities, which is described above.

Loans held for sale: fair value is estimated at book value.

Loans receivable, net of ALLL: fair value is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities. The market rates used are based on current rates the Company would impose for similar loans and reflect a market participant assumption about risks associated with non-performance, illiquidity, and the structure and term of the loans along with local economic and market conditions. Estimated fair value of impaired loans is based on the fair value of the collateral, less estimated cost to sell, or the present value of the loan's expected future cash flows (discounted at the loan's effective interest rate). All impaired loans are classified as Level 3 and all other loans are classified as Level 2 within the valuation hierarchy.

Accrued interest receivable: fair value is estimated at book value.

Non-marketable equity securities: fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

Deposits: fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from an independent third party and reviewed by the Company. The rates were the average of current rates offered by the Company's local competitors. The estimated fair value of demand, NOW, savings, and money market deposits is the book value since rates are regularly adjusted to market rates and transactions are executed at book value daily. Therefore, such deposits are classified in Level 1 of the valuation hierarchy. Certificate accounts and wholesale deposits are classified as Level 2 within the hierarchy.

FHLB advances: fair value of non-callable FHLB advances is estimated by discounting the future cash flows using rates of similar advances with similar maturities. Such rates were obtained from current rates offered by FHLB. The estimated fair value of callable FHLB advances was obtained from FHLB and the model was reviewed by the Company, including discussions with FHLB.

Repurchase agreements and other borrowed funds: fair value of term repurchase agreements and other term borrowings is estimated based on current repurchase rates and borrowing rates currently available to the Company for repurchases and borrowings with similar terms and maturities. The estimated fair value for overnight repurchase agreements and other borrowings is book value.

Subordinated debentures: fair value of the subordinated debt is estimated by discounting the estimated future cash flows using current estimated market rates. The market rates used were averages of currently traded trust preferred securities with similar characteristics to the Company's issuances and obtained from an independent third party.

Accrued interest payable: fair value is estimated at book value.

Off-balance sheet financial instruments: commitments to extend credit and letters of credit represent the principal categories of off-balance sheet financial instruments. Rates for these commitments are set at time of loan closing, such that no adjustment is necessary to reflect these commitments at market value. The Company has an insignificant amount of off-balance sheet financial instruments.

The following schedules present the carrying amounts, estimated fair values and the level within the fair value hierarchy of the Company's financial instruments:

(Dollars in thousands)	Carrying Amount September 30, 2014	Fair Value Measurements At the End of the Reporting Period Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 282,097	282,097	—	—
Investment securities, available-for-sale	2,398,196	—	2,398,196	—
Investment securities, held-to-maturity	482,757	—	513,142	—
Loans held for sale	65,598	65,598	—	—
Loans receivable, net of ALLL	4,328,467	—	4,222,037	162,469
Accrued interest receivable	42,981	42,981	—	—
Non-marketable equity securities	52,868	—	52,868	—
Total financial assets	$ 7,652,964	390,676	7,186,243	162,469
Financial liabilities				
Deposits	$ 6,106,811	4,720,941	1,391,221	—
FHLB advances	366,866	—	381,132	—
Repurchase agreements and other borrowed funds	374,564	—	374,564	—
Subordinated debentures	125,669	—	76,806	—
Accrued interest payable	3,058	3,058	—	—
Interest rate swaps	9,572	—	9,572	—
Total financial liabilities	$ 6,986,540	4,723,999	2,233,295	—

(Dollars in thousands)	Carrying Amount December 31, 2013	Fair Value Measurements At the End of the Reporting Period Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 155,657	155,657	—	—
Investment securities, available-for-sale	3,222,829	—	3,222,829	—
Loans held for sale	46,738	46,738	—	—
Loans receivable, net of ALLL	3,932,487	—	3,807,993	187,731
Accrued interest receivable	41,898	41,898	—	—
Non-marketable equity securities	52,192	—	52,192	—
Interest rate swaps	1,896	—	1,896	—
Total financial assets	$ 7,453,697	244,293	7,084,910	187,731
Financial liabilities				
Deposits	$ 5,579,967	4,258,213	1,341,382	—
FHLB advances	840,182	—	857,551	—
Repurchase agreements and other borrowed funds	321,781	—	321,781	—
Subordinated debentures	125,562	—	71,501	—

Accrued interest payable	3,505	3,505	—	—
Total financial liabilities	$ 6,870,997	4,261,718	2,592,215	—

Note 9. Mergers and Acquisitions

On August 31, 2014, the Company acquired 100 percent of the outstanding common stock of FNBR, a privately-owned company, and its wholly-owned subsidiary, First National Bank of the Rockies, a community bank based in Grand Junction, Colorado. First National Bank of the Rockies provides community banking services to individuals and businesses in northwestern Colorado, with banking offices located in Grand Junction, Steamboat Springs, Meeker, Rangely, Craig, Hayden and Oak Creek. As a result of the acquisition, the Company further diversified its loan and deposit customer base with its increased presence in the state of Colorado. The branches of First National Bank of the Rockies have been combined with an existing division of the Bank operating under the name “Bank of the San Juans, division of Glacier Bank.” The consideration paid by the Company to acquire FNBR was $31,817,000, which resulted in the Company issuing 555,732 shares of its common stock and $16,690,000 in cash in exchange for all of FNBR’s outstanding common stock. The fair value of the Company’s common stock issued was $27.22 per share, i.e., the closing market price of the Company’s common stock as of the August 31, 2014 acquisition date.

The purchase price paid by the Company to acquire FNBR was the result of extensive negotiations and was the subject of analysis and related issuance of an opinion as to the fairness, from a financial point of view, of the consideration to be received by the holders of FNBR common stock in connection with the acquisition by the Company. The merger agreement limited FNBR’s ability to pursue alternative acquisition proposals and provided for the payment by FNBR of a $1,630,000 break-up fee in the event FNBR received an unsolicited acquisition proposal from a third party that was superior from a financial point of view to that made by the Company and the merger agreement was terminated. For additional information regarding the factors leading to the determination of the purchase price, see the Sections entitled “Risk Factors” and “Background of and Reasons for the Merger” in the Company’s Registration Statement on Form S-4 filed with the United States Securities and Exchange Commission on May 30, 2014.

The assets and liabilities of FNBR were recorded on the Company’s consolidated statements of financial condition at their estimated fair values as of the August 31, 2014 acquisition date and FNBR’s results of operations have been included in the Company’s consolidated statements of operations since that date. The Company recorded a $680,000 bargain purchase gain due to the fair value of FNBR’s identifiable net assets exceeding the consideration transferred. The bargain purchase gain is included in other income in the Company’s consolidated statements of operations. Before recognizing the bargain purchase gain, the Company reassessed whether it correctly identified and valued each of the assets acquired and liabilities assumed. The objective of the reassessment process was to ensure that the measurements reflected consideration of all available information as of the acquisition date. The reassessment process included reviewing FNBR’s statement of financial condition to verify that all assets and liabilities had been identified and then re-evaluating and challenging again the procedures and the reasonableness of the significant assumptions utilized in determining the fair value of the identifiable assets and liabilities with respect to the acquisition date. The Company obtained fair value estimates from independent third party specialists for the significant identifiable assets and liabilities, including loans, investment securities and deposits. Following the reassessment process, the Company concluded that the consideration transferred and all of the assets acquired and liabilities assumed had been properly identified and valued.

The following table discloses the calculation of the fair value of the consideration transferred, the total identifiable net assets acquired and the resulting bargain purchase gain arising from the FNBR acquisition:

(Dollars in thousands)	August 31, 2014
Fair value of consideration transferred	
Fair value of Company shares issued, net of equity issuance costs	$ 15,127
Cash consideration for outstanding shares	16,690
Contingent consideration	—
Total fair value of consideration transferred	31,817
Recognized amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets acquired	
Cash and cash equivalents	14,578
Investment securities	157,018
Loans receivable	137,488
Core deposit intangible	4,199
Accrued income and other assets	35,884
Total identifiable assets acquired	349,167
Liabilities assumed	
Deposits	309,641
Accrued expenses and other liabilities	7,029
Total liabilities assumed	316,670
Total identifiable net assets	32,497
Bargain purchase gain	$ 680

The fair value of the FNBR assets acquired includes loans with fair values of $137,488,000. The gross principal and contractual interest due under the FNBR contracts is $146,019,000, all of which is expected to be collectible.

Core deposit intangible assets related to the FNBR acquisition totaled $4,199,000 with an estimated life of 10 years.

The Company incurred $525,000 of FNBR third-party acquisition-related costs during the nine month period ended September 30, 2014. The expenses are included in other expense in the Company's consolidated statements of operations.

Total income consisting of net interest income and non-interest income of the acquired operations of FNBR was approximately $2,251,000 and net income was approximately $1,029,000 from August 31, 2014 to September 30, 2014. The following unaudited pro forma summary presents consolidated information of the Company as if the FNBR acquisition had occurred on January 1, 2013:

	Three Months ended		Nine Months ended	
(Dollars in thousands)	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net interest income and non-interest income	$ 95,966	89,155	278,983	247,449
Net income	29,034	25,523	85,310	70,778

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to provide a more comprehensive review of the Glacier Bancorp, Inc.'s ("Company") operating results and financial condition than can be obtained from reading the Consolidated Financial Statements alone. The discussion should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in "Part I. Item 1. Financial Statements."

FORWARD-LOOKING STATEMENTS

This Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about management's plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "should," "projects," "seeks," "estimates" or words of similar r These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. In addition to the factors set forth in the sections titled "Risk Factors," "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", as applicable, in this report and the Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 Annual Report"), the following factors, among others, could cause actual results to differ materially from the anticipated results:

- the risks associated with lending and potential adverse changes of the credit quality of loans in the Company's portfolio;
- increased loan delinquency rates;
- the risks presented by the lingering economic recovery which could adversely affect credit quality, loan collateral values, OREO values, investment values, liquidity and capital levels, dividends and loan originations;
- changes in market interest rates, which could adversely affect the Company's net interest income and profitability;
- legislative or regulatory changes that adversely affect the Company's business, ability to complete pending or prospective future acquisitions, limit certain sources of revenue, or increase cost of operations;
- costs or difficulties related to the completion and integration of acquisitions;
- the goodwill the Company has recorded in connection with acquisitions could become additionally impaired, which may have an adverse impact on earnings and capital;
- reduced demand for banking products and services;
- the risks presented by public stock market volatility, which could adversely affect the market price of the Company's common stock and the ability to raise additional capital or grow the Company through acquisitions;
- consolidation in the financial services industry in the Company's markets resulting in the creation of larger financial institutions who may have greater resources could change the competitive landscape;
- dependence on the CEO, the senior management team and the Presidents of the Bank divisions;
- potential interruption or breach in security of the Company's systems; and
- the Company's success in managing risks involved in the foregoing.

Please take into account that forward-looking statements speak only as of the date of this Form 10-Q. The Company does not undertake any obligation to publicly correct or update any forward-looking statement if it later becomes aware that actual results are likely to differ materially from those expressed in such forward-looking statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Recent Acquisition

On August 31, 2014, the Company completed the acquisition of FNBR Holding Corporation ("FNBR"), and its subsidiary, First National Bank of the Rockies which has ten community banking offices in Grand Junction, Steamboat Springs, Meeker, Rangely, Craig, Hayden, and Oak Creek, Colorado. The branches of FNBR have been combined with an existing division of Glacier Bank and operate under the name "Bank of the San Juans, division of Glacier Bank." The total purchase price of the acquisition was $31.8 million, consisting of $16.7 million of cash paid and 555,732 shares of the Company's common stock issued which resulted in a bargain purchase gain of $680 thousand. The Company incurred $525 thousand of legal and professional expenses in connection with the acquisition. The Company's results of operations and financial condition include the acquisition of FNBR from the August 31, 2014 acquisition date.

Financial Condition Analysis

Assets

The following table summarizes the Company's assets as of the dates indicated:

(Dollars in thousands)	Sep 30, 2014	Jun 30, 2014	Dec 31, 2013	Sep 30, 2013	$ Change from Jun 30, 2014	$ Change from Dec 31, 2013	$ Change from Sep 30, 2013
Cash and cash equivalents	$ 282,097	202,358	155,657	254,684	79,739	126,440	27,413
Investment securities, available-for-sale	2,398,196	2,559,411	3,222,829	3,318,953	(161,215)	(824,633)	(920,757)
Investment securities, held-to-maturity	482,757	483,557	—	—	(800)	482,757	482,757
Total investment securities	2,880,953	3,042,968	3,222,829	3,318,953	(162,015)	(341,876)	(438,000)
Loans receivable							
Residential real estate	603,806	587,340	577,589	583,817	16,466	26,217	19,989
Commercial	3,248,529	3,023,915	2,901,283	2,828,287	224,614	347,246	420,242
Consumer and other	606,764	592,024	583,966	588,995	14,740	22,798	17,769
Loans receivable	4,459,099	4,203,279	4,062,838	4,001,099	255,820	396,261	458,000
Allowance for loan and lease losses	(130,632)	(130,636)	(130,351)	(130,765)	4	(281)	133
Loans receivable, net	4,328,467	4,072,643	3,932,487	3,870,334	255,824	395,980	458,133
Other assets	618,293	572,125	573,377	603,959	46,168	44,916	14,334
Total assets	$ 8,109,810	7,890,094	7,884,350	8,047,930	219,716	225,460	61,880

Total investment securities decreased $162 million, or 5 percent, during the current quarter and decreased $438 million, or 13 percent, from September 30, 2013 as the Company continued to reduce the overall size of the investment portfolio. At September 30, 2014, investment securities represented 36 percent of total assets, down from 39 percent at the previous quarter and 41 percent at September 30, 2013.

Excluding the loans receivable from the acquisition of FNBR, the loan portfolio increased by $118 million, or 11 percent annualized, during the current quarter with improvement in all loan categories. Excluding the acquisition, the largest dollar and percentage increase was in commercial loans which increased $107 million, or 4 percent, during the current quarter which was attributable to increases in loan production and seasonal draws on construction lines. Excluding the loans receivable from the acquisition, the loan portfolio increased $258 million, or 6 percent, since

December 31, 2013 of which $230 million came from growth in commercial loans.

Liabilities

The following table summarizes the Company’s liabilities as of the dates indicated:

(Dollars in thousands)	Sep 30, 2014	Jun 30, 2014	Dec 31, 2013	Sep 30, 2013	$ Change from Jun 30, 2014	Dec 31, 2013	Sep 30, 2013
Non-interest bearing deposits	$1,595,971	1,464,938	1,374,419	1,397,401	131,033	221,552	198,570
Interest bearing deposits	4,510,840	4,280,898	4,205,548	4,215,479	229,942	305,292	295,361
Repurchase agreements	367,213	315,240	313,394	314,313	51,973	53,819	52,900
FHLB advances	366,866	607,305	840,182	967,382	(240,439)	(473,316)	(600,516)
Other borrowed funds	7,351	7,367	8,387	8,466	(16)	(1,036)	(1,115)
Subordinated debentures	125,669	125,633	125,562	125,526	36	107	143
Other liabilities	95,420	78,698	53,608	71,556	16,722	41,812	23,864
Total liabilities	$7,069,330	6,880,079	6,921,100	7,100,123	189,251	148,230	(30,793)

Excluding the FNBR acquisition, non-interest bearing deposits at September 30, 2014 increased $51.0 million, or 3 percent, during the current quarter, and increased $119 million, or 8 percent, from September 30, 2013. Excluding the acquisition, interest bearing deposits were unchanged from the prior quarter and increased $65.8 million, or 2 percent, from the prior year. In addition to the increase in deposit balances, the Company has benefited from a higher than expected increase in the number of checking accounts during the current year. Interest bearing deposits of $4.511 billion at September 30, 2014 included $196 million of wholesale deposits (i.e., brokered deposits classified as NOW, money market deposits and certificate accounts). Federal Home Loan Bank (“FHLB”) advances of $367 million at September 30, 2014 decreased $240 million, or 40 percent, during the current quarter and decreased $601 million, or 62 percent, from September 30, 2013 as the need for borrowings continued to decrease concurrent with the increase in deposits.

Stockholders’ Equity

The following table summarizes the stockholders’ equity balances as of the dates indicated:

(Dollars in thousands, except per share data)	Sep 30, 2014	Jun 30, 2014	Dec 31, 2013	Sep 30, 2013	$ Change from Jun 30, 2014	Dec 31, 2013	Sep 30, 2013
Common equity	$1,017,805	985,809	953,605	937,824	31,996	64,200	79,981
Accumulated other comprehensive income	22,675	24,206	9,645	9,983	(1,531)	13,030	12,692
Total stockholders’ equity	1,040,480	1,010,015	963,250	947,807	30,465	77,230	92,673
Goodwill and core deposit intangible, net	(141,323)	(137,815)	(139,218)	(139,934)	(3,508)	(2,105)	(1,389)
Tangible stockholders’ equity	$899,157	872,200	824,032	807,873	26,957	75,125	91,284
Stockholders’ equity to total assets	12.83 %	12.80 %	12.22 %	11.78 %			
Tangible stockholders’ equity to total tangible assets	11.28 %	11.25 %	10.64 %	10.22 %			
Book value per common share	$13.87	13.56	12.95	12.76	0.31	0.92	1.11
Tangible book value per common share	$11.98	11.71	11.08	10.87	0.27	0.90	1.11
	$25.86	28.38	29.79	24.68	(2.52)	(3.93)	1.18

Market price per share at
end of period

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Tangible stockholders' equity of $899 million at September 30, 2014 increased $27.0 million, or 3 percent, from the prior quarter as a result of $15.1 million of Company stock issued in connection with the acquisition of FNBR and earnings retention. Tangible stockholders' equity increased $91.3 million from a year ago as the result of earnings retention, stock issued in connection with the acquisition, and an increase in accumulated other comprehensive income. Tangible book value per common share of $11.98 increased $0.27 per share from the prior quarter and increased $1.11 per share from the prior year third quarter.

On September 25, 2014, the Company's Board of Directors declared a cash dividend of $0.17 per share during the current quarter. The dividend is payable October 16, 2014 to shareholders of record on October 7, 2014. The dividend was the 118th consecutive quarterly dividend declared by the Company and future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations.

Operating Results for Three Months Ended September 30, 2014
Compared to June 30, 2014, March 31, 2014 and September 30, 2013

Performance Summary

(Dollars in thousands, except per share data)	Three Months ended September 30, 2014	June 30, 2014	March 31, 2014	September 30, 2013
Net income	$29,294	28,677	26,730	25,628
Diluted earnings per share	$0.40	0.38	0.36	0.35
Return on average assets (annualized)	1.46 %	1.47 %	1.39 %	1.27 %
Return on average equity (annualized)	11.30 %	11.45 %	11.04 %	10.85 %

The Company reported net income of $29.3 million for the current quarter, an increase of $3.7 million, or 14 percent, from the $25.6 million of net income for the prior year third quarter. Diluted earnings per share for the current quarter was $0.40 per share, an increase of $0.05, or 14 percent, from the prior year third quarter diluted earnings per share of $0.35.

Income Summary
The following table summarizes revenue for the periods indicated:

(Dollars in thousands)	Three Months ended				$ Change from		
	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Sep 30, 2013	Jun 30, 2014	Mar 31, 2014	Sep 30, 2013
Net interest income							
Interest income	$75,690	73,963	74,087	69,531	1,727	1,603	6,159
Interest expense	6,430	6,528	6,640	7,186	(98)	(210)	(756)
Total net interest income	69,260	67,435	67,447	62,345	1,825	1,813	6,915
Non-interest income							
Service charges, loan fees, and other fees	15,661	14,747	13,248	15,119	914	2,413	542
Gain on sale of loans	6,000	4,778	3,595	7,021	1,222	2,405	(1,021)
Loss on sale of investments	(61)	(48)	(51)	(403)	(13)	(10)	342
Other income	2,832	3,027	2,596	2,136	(195)	236	696
Total non-interest income	24,432	22,504	19,388	23,873	1,928	5,044	559
	$93,692	89,939	86,835	86,218	3,753		