GLACIER BANCORP INC
Form 10-Q
August 04, 2015

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 June 30, 2015

¨ 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 July 28, 2015 was 75,532,082. 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)	June 30, 2015	December 31, 2014
Assets		
Cash on hand and in banks	$ 120,783	122,834
Federal funds sold	—	1,025
Interest bearing cash deposits	234,936	318,550
Cash and cash equivalents	355,719	442,409
Investment securities, available-for-sale	2,361,830	2,387,428
Investment securities, held-to-maturity	593,314	520,997
Total investment securities	2,955,144	2,908,425
Loans held for sale	53,201	46,726
Loans receivable	4,807,431	4,488,095
Allowance for loan and lease losses	(130,519)	(129,753)
Loans receivable, net	4,676,912	4,358,342
Premises and equipment, net	186,858	179,175
Other real estate owned	26,686	27,804
Accrued interest receivable	44,563	40,587
Deferred tax asset	56,571	41,737
Core deposit intangible, net	11,501	10,900
Goodwill	130,843	129,706
Non-marketable equity securities	24,914	52,868
Other assets	66,898	67,828
Total assets	$ 8,589,810	8,306,507
Liabilities		
Non-interest bearing deposits	$ 1,731,015	1,632,403
Interest bearing deposits	4,827,642	4,712,809
Securities sold under agreements to repurchase	408,935	397,107
Federal Home Loan Bank advances	329,470	296,944
Other borrowed funds	6,665	7,311
Subordinated debentures	125,776	125,705
Accrued interest payable	3,790	4,155
Other liabilities	100,066	102,026
Total liabilities	7,533,359	7,278,460
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	755	750
Paid-in capital	720,073	708,356
Retained earnings - substantially restricted	330,183	301,197
Accumulated other comprehensive income	5,440	17,744
Total stockholders’ equity	1,056,451	1,028,047
Total liabilities and stockholders’ equity	$ 8,589,810	8,306,507
Number of common stock shares issued and outstanding	75,531,258	75,026,092

See accompanying notes to unaudited condensed consolidated financial statements.

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GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)	Three Months ended June 30, 2015	Three Months ended June 30, 2014	Six Months ended June 30, 2015	Six Months ended June 30, 2014
Interest Income				
Residential real estate loans	$7,942	7,220	15,703	14,307
Commercial loans	40,698	35,267	79,720	70,309
Consumer and other loans	8,018	7,583	15,762	15,226
Investment securities	21,959	23,893	44,918	48,208
Total interest income	78,617	73,963	156,103	148,050
Interest Expense				
Deposits	4,112	3,061	8,259	6,150
Securities sold under agreements to repurchase	232	192	473	402
Federal Home Loan Bank advances	2,217	2,447	4,412	4,961
Other borrowed funds	15	48	42	101
Subordinated debentures	793	780	1,565	1,554
Total interest expense	7,369	6,528	14,751	13,168
Net Interest Income	71,248	67,435	141,352	134,882
Provision for loan losses	282	239	1,047	1,361
Net interest income after provision for loan losses	70,966	67,196	140,305	133,521
Non-Interest Income				
Service charges and other fees	14,303	13,547	27,302	25,766
Miscellaneous loan fees and charges	1,142	1,200	2,299	2,229
Gain on sale of loans	7,600	4,778	13,030	8,373
Loss on sale of investments	(98)	(48)	(93)	(99)
Other income	2,855	3,027	5,957	5,623
Total non-interest income	25,802	22,504	48,495	41,892
Non-Interest Expense				
Compensation and employee benefits	32,729	28,988	64,973	57,622
Occupancy and equipment	7,810	6,733	15,172	13,346
Advertising and promotions	2,240	1,948	4,167	3,725
Data processing	1,593	2,032	2,842	3,320
Other real estate owned	1,377	566	2,135	1,073
Regulatory assessments and insurance	1,006	1,028	2,311	2,620
Core deposit intangibles amortization	755	693	1,486	1,403
Other expenses	12,435	10,685	22,356	19,634
Total non-interest expense	59,945	52,673	115,442	102,743
Income Before Income Taxes	36,823	37,027	73,358	72,670
Federal and state income tax expense	7,488	8,350	16,353	17,263
Net Income	$29,335	28,677	57,005	55,407
Basic earnings per share	$0.39	0.38	0.76	0.74
Diluted earnings per share	$0.39	0.38	0.76	0.74
Dividends declared per share	$0.19	0.17	0.37	0.33
Average outstanding shares - basic	75,530,591	74,467,576	75,369,366	74,452,568
Average outstanding shares - diluted	75,565,655	74,499,660	75,407,621	74,491,459

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 June 30, 2015	Three Months ended June 30, 2014	Six Months ended June 30, 2015	Six Months ended June 30, 2014
Net Income	$ 29,335	28,677	57,005	55,407
Other Comprehensive (Loss) Income, Net of Tax				
Unrealized (losses) gains on available-for-sale securities	(25,750)	20,714	(20,569)	35,317
Reclassification adjustment for losses included in net income	49	48	45	121
Net unrealized (losses) gains on available-for-sale securities	(25,701)	20,762	(20,524)	35,438
Tax effect	9,957	(8,056)	7,978	(13,736)
Net of tax amount	(15,744)	12,706	(12,546)	21,702
Unrealized gains (losses) on derivatives used for cash flow hedges	3,896	(6,190)	(2,097)	(11,669)
Reclassification adjustment for losses included in net income	1,257	—	2,508	—
Net unrealized gains (losses) on derivatives used for cash flow hedges	5,153	(6,190)	411	(11,669)
Tax effect	(1,996)	2,402	(169)	4,528
Net of tax amount	3,157	(3,788)	242	(7,141)
Total other comprehensive (loss) income, net of tax	(12,587)	8,918	(12,304)	14,561
Total Comprehensive Income	$ 16,748	37,595	44,701	69,968

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months ended June 30, 2015 and 2014

(Dollars in thousands, except per share data)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings Substantially Restricted	Accumulated Other Compre-hensive Income	Total
Balance at December 31, 2013	74,373,296	$ 744	690,918	261,943	9,645	963,250
Comprehensive income	—	—	—	55,407	14,561	69,968
Cash dividends declared ($0.33 per share)	—	—	—	(24,629)	—	(24,629)
Stock issuances under stock incentive plans	94,612	1	763	—	—	764
Stock-based compensation and related taxes	—	—	662	—	—	662
Balance at June 30, 2014	74,467,908	$ 745	692,343	292,721	24,206	1,010,015
Balance at December 31, 2014	75,026,092	$ 750	708,356	301,197	17,744	1,028,047
Comprehensive income	—	—	—	57,005	(12,304)	44,701
Cash dividends declared ($0.37 per share)	—	—	—	(28,019)	—	(28,019)
Stock issuances under stock incentive plans	61,522	1	(300)	—	—	(299)
Stock issued in connection with acquisitions	443,644	4	10,772	—	—	10,776
Stock-based compensation and related taxes	—	—	1,245	—	—	1,245
Balance at June 30, 2015	75,531,258	$ 755	720,073	330,183	5,440	1,056,451

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months ended	
(Dollars in thousands)	June 30, 2015	June 30, 2014
Operating Activities		
Net income	$ 57,005	55,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,047	1,361
Net amortization of investment securities premiums and discounts	13,376	14,606
Loans held for sale originated or acquired	(449,630)	(293,098)
Proceeds from sales of loans held for sale	460,799	298,399
Gain on sale of loans	(13,030)	(8,373)
Loss on sale of investments	93	99
Stock-based compensation expense, net of tax benefits	700	437
Excess tax (benefits) deficiencies from stock-based compensation	(102)	14
Depreciation of premises and equipment	6,658	5,545
Loss (gain) on sale of other real estate owned and write-downs, net	619	(969)
Amortization of core deposit intangibles	1,486	1,403
Net (increase) decrease in accrued interest receivable	(3,173)	133
Net decrease (increase) in other assets	3,983	(1,870)
Net decrease in accrued interest payable	(496)	(342)
Net (decrease) increase in other liabilities	(2,405)	2,960
Net cash provided by operating activities	76,930	75,712
Investing Activities		
Sales of available-for-sale securities	35,558	16,639
Maturities, prepayments and calls of available-for-sale securities	346,230	309,569
Purchases of available-for-sale securities	(347,212)	(121,671)
Maturities, prepayments and calls of held-to-maturity securities	10,065	3,930
Purchases of held-to-maturity securities	(83,004)	(7,873)
Principal collected on loans	723,316	630,875
Loans originated or acquired	(967,774)	(783,843)
Net addition of premises and equipment and other real estate owned	(7,403)	(5,614)
Proceeds from sale of other real estate owned	6,288	6,730
Net sale (purchase) of non-marketable equity securities	29,877	(523)
Net cash received in acquisitions	19,712	—
Net cash (used in) provided by investing activities	(234,347)	48,219

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months ended	
(Dollars in thousands)	June 30, 2015	June 30, 2014
Financing Activities		
Net increase in deposits	$ 66,625	165,869
Net increase in securities sold under agreements to repurchase	10,472	1,846
Net decrease in short-term Federal Home Loan Bank advances	—	(256,000)
Proceeds from long-term Federal Home Loan Bank advances	50,000	175,000
Repayments of long-term Federal Home Loan Bank advances	(19,410)	(151,877)
Net decrease in other borrowed funds	(575)	(949)
Cash dividends paid	(36,188)	(11,942)
Excess tax benefits (deficiencies) from stock-based compensation	102	(14)
Stock-based compensation activity	(299)	837
Net cash provided by (used in) financing activities	70,727	(77,230)
Net (decrease) increase in cash and cash equivalents	(86,690)	46,701
Cash and cash equivalents at beginning of period	442,409	155,657
Cash and cash equivalents at end of period	$ 355,719	202,358
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$ 15,248	13,510
Cash paid during the period for income taxes	15,961	16,818
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	265	501
Transfer of loans to other real estate owned	5,181	5,740
Acquisitions		
Fair value of common stock shares issued	10,776	—
Cash consideration for outstanding shares	12,219	—
Fair value of assets acquired	174,637	—
Liabilities assumed	152,779	—

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 individuals and businesses in Montana, Idaho, Wyoming, Colorado, Utah and Washington through 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 June 30, 2015, the results of operations and comprehensive income for the three and six month periods ended June 30, 2015 and 2014, and changes in stockholders' equity and cash flows for the six month periods ended June 30, 2015 and 2014. The condensed consolidated statement of financial condition of the Company as of December 31, 2014 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, 2014. Operating results for the six months ended June 30, 2015 are not necessarily indicative of the results anticipated for the year ending December 31, 2015.

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 4) 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, the Bank and all variable interest entities ("VIE") for which the Company has both the power to direct the VIE's significant activities and the obligation to absorb a majority of the expected losses and/or receive a majority of the expected residual returns. The Bank consists of thirteen bank divisions, a treasury division and an information technology division. The treasury division includes the Bank's investment 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 February 2015, the Company completed its acquisition of Montana Community Banks, Inc. and its wholly-owned subsidiary, Community Bank, Inc., a community bank based in Ronan, Montana (collectively, “CB”). In August 2014, the Company completed its acquisition of FNBR Holding Corporation 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.

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. The Company periodically enters into restructure agreements with borrowers whereby the loans were previously identified as TDRs. When such circumstances occur, the Company carefully evaluates the facts of the subsequent restructure to determine the appropriate accounting and under certain circumstances it may be acceptable not to account for the subsequently restructured loan as a TDR. When assessing whether a concession has been granted by the Company, any prior forgiveness on a cumulative basis is considered a continuing concession. 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 20 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. The following paragraphs provide descriptions of recently adopted or newly issued but not yet effective accounting standards that could have a material effect on the Company’s financial position or results of operations.

In February 2015, FASB amended FASB ASC Topic 810, Consolidation. The amendments in this Update make targeted changes to the current consolidation guidance and ends a deferral available for investment companies. The amendments modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. Consolidation conclusions may change for entities that already are VIEs due to changes in how entities would analyze related-party relationships and fee arrangements. The amendments relax existing criteria for determining when fees paid to a decision maker or service provider do not represent a variable interest by focusing on whether those fees are “at market.” The amendments eliminate both the consolidation model specific to limited partnerships and the current presumption that a general partner controls a limited partnership. Application of the new amendments could result in some entities being deconsolidated or considered a VIE and subject to additional disclosures. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period with any adjustments reflected as of the beginning of the reporting year that includes the interim period. A reporting entity may apply the amendments using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the reporting year of adoption or may apply the amendments retrospectively. The Company is currently evaluating the impact of these 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 these 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 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 adoption of these amendments did not have a material effect on the Company’s financial position or results of operations.

Note 2. Investment Securities

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

	June 30, 2015			
	Amortized Cost	Gross Unrealized		Fair Value
(Dollars in thousands)		Gains	Losses	
Available-for-sale				
U.S. government and federal agency	$ 51,889	13	(405)	51,497
U.S. government sponsored enterprises	81,085	32	(356)	80,761
State and local governments	938,088	29,310	(9,346)	958,052
Corporate bonds	355,140	1,482	(773)	355,849
Residential mortgage-backed securities	910,491	11,298	(6,118)	915,671
Total available-for-sale	2,336,693	42,135	(16,998)	2,361,830
Held-to-maturity				
State and local governments	593,314	23,308	(7,841)	608,781
Total held-to-maturity	593,314	23,308	(7,841)	608,781
Total investment securities	$ 2,930,007	65,443	(24,839)	2,970,611

	December 31, 2014			
	Amortized Cost	Gross Unrealized		Fair Value
(Dollars in thousands)		Gains	Losses	
Available-for-sale				
U.S. government and federal agency	$ 44	—	—	44
U.S. government sponsored enterprises	21,916	31	(2)	21,945
State and local governments	962,365	40,173	(4,569)	997,969
Corporate bonds	313,545	2,059	(750)	314,854
Residential mortgage-backed securities	1,043,897	11,205	(2,486)	1,052,616
Total available-for-sale	2,341,767	53,468	(7,807)	2,387,428
Held-to-maturity				
State and local governments	520,997	32,925	(2,976)	550,946
Total held-to-maturity	520,997	32,925	(2,976)	550,946
Total investment securities	$ 2,862,764	86,393	(10,783)	2,938,374

The following table presents the amortized cost and fair value of available-for-sale and held-to-maturity securities by contractual maturity at June 30, 2015. Actual maturities may differ from expected or contractual maturities since borrowers have the right to prepay obligations with or without prepayment penalties.

	June 30, 2015			
	Available-for-Sale		Held-to-Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 130,166	130,744	—	—
Due after one year through five years	449,624	451,570	—	—
Due after five years through ten years	137,566	139,651	5,462	5,384
Due after ten years	708,846	724,194	587,852	603,397
	1,426,202	1,446,159	593,314	608,781
Residential mortgage-backed securities [1]	910,491	915,671	—	—
Total	$ 2,336,693	2,361,830	593,314	608,781

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

Proceeds from sales and calls of investment securities and the associated gains and losses that have been included in earnings are listed below:

	Three Months ended		Six Months ended	
(Dollars in thousands)	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Available-for-sale				
Proceeds from sales and calls of investment securities	$ 11,918	21,773	74,621	33,700
Gross realized gains [1]	43	160	82	181
Gross realized losses [1]	(92)	(208)	(127)	(302)
Held-to-maturity				
Proceeds from calls of investment securities	9,605	—	10,065	3,930
Gross realized gains [1]	14	—	15	22
Gross realized losses [1]	(63)	—	(63)	—

[1] The gain or loss on the sale or call of each investment security is determined by the specific identification method.

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

	June 30, 2015					
	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 and federal agency	$ 48,276	(405)	3	—	48,279	(405)
U.S. government sponsored enterprises	64,511	(356)	—	—	64,511	(356)
State and local governments	228,286	(5,018)	106,178	(4,328)	334,464	(9,346)
Corporate bonds	128,016	(736)	3,635	(37)	131,651	(773)
Residential mortgage-backed securities	271,261	(4,307)	48,782	(1,811)	320,043	(6,118)
Total available-for-sale	$ 740,350	(10,822)	158,598	(6,176)	898,948	(16,998)
Held-to-maturity						
State and local governments	$ 126,065	(4,113)	65,860	(3,728)	191,925	(7,841)
Total held-to-maturity	$ 126,065	(4,113)	65,860	(3,728)	191,925	(7,841)

	December 31, 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 and federal agency	$ —	—	3	—	3	—
U.S. government sponsored enterprises	13,793	(2)	—	—	13,793	(2)
State and local governments	91,082	(1,273)	115,927	(3,296)	207,009	(4,569)
Corporate bonds	60,289	(545)	7,874	(205)	68,163	(750)
Residential mortgage-backed securities	192,962	(926)	78,223	(1,560)	271,185	(2,486)
Total available-for-sale	$ 358,126	(2,746)	202,027	(5,061)	560,153	(7,807)
Held-to-maturity						
State and local governments	$ 18,643	(624)	76,761	(2,352)	95,404	(2,976)
Total held-to-maturity	$ 18,643	(624)	76,761	(2,352)	95,404	(2,976)

Based on an analysis of its investment securities with unrealized losses as of June 30, 2015 and December 31, 2014, 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 June 30, 2015, 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 table presents loans receivable for each portfolio class of loans:

(Dollars in thousands)	June 30, 2015	December 31, 2014
Residential real estate loans	$ 635,674	611,463
Commercial loans		
Real estate	2,454,369	2,337,548
Other commercial	1,074,905	925,900
Total	3,529,274	3,263,448
Consumer and other loans		
Home equity	410,708	394,670
Other consumer	231,775	218,514
Total	642,483	613,184
Loans receivable [1]	4,807,431	4,488,095
Allowance for loan and lease losses	(130,519)	(129,753)
Loans receivable, net	$ 4,676,912	4,358,342

[1] Includes net deferred fees, costs, premiums and discounts of $13,312,000 and $13,710,000 at June 30, 2015 and December 31, 2014, respectively.

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.

The following tables summarize the activity in the ALLL by portfolio segment:

(Dollars in thousands)	Three Months ended June 30, 2015					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Balance at beginning of period	$ 129,856	15,131	67,327	31,515	9,519	6,364
Provision for loan losses	282	(258)	491	532	(559)	76
Charge-offs	(1,301)	(44)	(303)	(675)	(122)	(157)
Recoveries	1,682	21	1,182	111	108	260
Balance at end of period	$ 130,519	14,850	68,697	31,483	8,946	6,543

(Dollars in thousands)	Three Months ended June 30, 2014					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Balance at beginning of period	$ 130,729	14,066	70,571	28,484	9,426	8,182
Provision for loan losses	239	915	(2,229)	1,334	308	(89)
Charge-offs	(1,738)	(377)	(83)	(586)	(186)	(506)
Recoveries	1,406	20	670	357	177	182
Balance at end of period	$ 130,636	14,624	68,929	29,589	9,725	7,769

(Dollars in thousands)	Six Months ended June 30, 2015					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Balance at beginning of period	$ 129,753	14,680	67,799	30,891	9,963	6,420
Provision for loan losses	1,047	182	205	1,644	(1,018)	34
Charge-offs	(2,598)	(58)	(748)	(1,369)	(153)	(270)
Recoveries	2,317	46	1,441	317	154	359
Balance at end of period	$ 130,519	14,850	68,697	31,483	8,946	6,543

(Dollars in thousands)	Six Months ended June 30, 2014					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Balance at beginning of period	$ 130,351	14,067	70,332	28,630	9,299	8,023
Provision for loan losses	1,361	737	(2,189)	2,267	511	35
Charge-offs	(3,324)	(413)	(264)	(1,749)	(299)	(599)
Recoveries	2,248	233	1,050	441	214	310
Balance at end of period	$ 130,636	14,624	68,929	29,589	9,725	7,769

The following tables disclose the balance in the ALLL and the recorded investment in loans by portfolio segment:

	June 30, 2015					
(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	$7,254	793	2,546	3,306	111	498
Collectively evaluated for impairment	123,265	14,057	66,151	28,177	8,835	6,045
Total allowance for loan and lease losses	$130,519	14,850	68,697	31,483	8,946	6,543
Loans receivable						
Individually evaluated for impairment	$151,732	18,199	94,860	28,061	6,580	4,032
Collectively evaluated for impairment	4,655,699	617,475	2,359,509	1,046,844	404,128	227,743
Total loans receivable	$4,807,431	635,674	2,454,369	1,074,905	410,708	231,775

	December 31, 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	$11,597	853	2,967	6,836	447	494
Collectively evaluated for impairment	118,156	13,827	64,832	24,055	9,516	5,926
Total allowance for loan and lease losses	$129,753	14,680	67,799	30,891	9,963	6,420
Loans receivable						
Individually evaluated for impairment	$161,366	19,576	105,264	25,321	6,901	4,304
Collectively evaluated for impairment	4,326,729	591,887	2,232,284	900,579	387,769	214,210
Total loans receivable	$4,488,095	611,463	2,337,548	925,900	394,670	218,514

The following tables disclose information related to impaired loans by portfolio segment:

	At or for the Three or Six Months ended June 30, 2015					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$ 34,014	5,055	15,111	11,862	234	1,752
Unpaid principal balance	35,374	5,186	15,505	12,184	253	2,246
Specific valuation allowance	7,254	793	2,546	3,306	111	498
Average balance - three months	34,166	5,081	14,034	13,003	319	1,729
Average balance - six months	38,006	4,757	18,408	12,461	617	1,763
Loans without a specific valuation allowance						
Recorded balance	$ 117,718	13,144	79,749	16,199	6,346	2,280
Unpaid principal balance	146,826	14,440	101,325	21,622	7,100	2,339
Average balance - three months	122,973	13,525	82,629	18,345	6,220	2,254
Average balance - six months	120,541	14,172	81,122	16,878	6,042	2,327
Total						
Recorded balance	$ 151,732	18,199	94,860	28,061	6,580	4,032
Unpaid principal balance	182,200	19,626	116,830	33,806	7,353	4,585
Specific valuation allowance	7,254	793	2,546	3,306	111	498
Average balance - three months	157,139	18,606	96,663	31,348	6,539	3,983
Average balance - six months	158,547	18,929	99,530	29,339	6,659	4,090

	At or for the Year ended December 31, 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	$ 45,688	4,110	27,155	11,377	1,214	1,832
Unpaid principal balance	48,477	4,276	28,048	12,461	1,336	2,356
Specific valuation allowance	11,597	853	2,967	6,836	447	494
Average balance	53,339	5,480	24,519	19,874	1,039	2,427
Loans without a specific valuation allowance						
Recorded balance	$ 115,678	15,466	78,109	13,944	5,687	2,472
Unpaid principal balance	145,038	16,683	100,266	19,117	6,403	2,569
Average balance	128,645	15,580	89,015	14,024	7,163	2,863
Total						
Recorded balance	$ 161,366	19,576	105,264	25,321	6,901	4,304
Unpaid principal balance	193,515	20,959	128,314	31,578	7,739	4,925
Specific valuation allowance	11,597	853	2,967	6,836	447	494
Average balance	181,984	21,060	113,534	33,898	8,202	5,290

Interest income recognized on impaired loans for the six months ended June 30, 2015 and 2014 was not significant.

The following tables present an aging analysis of the recorded investment in loans by portfolio segment:

	June 30, 2015					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$ 19,801	473	10,057	6,484	1,943	844
Accruing loans 60-89 days past due	8,673	858	5,616	765	1,169	265
Accruing loans 90 days or more past due	618	—	396	33	—	189
Non-accrual loans	56,918	7,038	33,671	9,610	5,902	697
Total past due and non-accrual loans	86,010	8,369	49,740	16,892	9,014	1,995
Current loans receivable	4,721,421	627,305	2,404,629	1,058,013	401,694	229,780
Total loans receivable	$ 4,807,431	635,674	2,454,369	1,074,905	410,708	231,775

	December 31, 2014					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$ 19,139	3,506	7,925	5,310	1,374	1,024
Accruing loans 60-89 days past due	6,765	1,686	3,592	609	679	199
Accruing loans 90 days or more past due	214	35	31	74	17	57
Non-accrual loans	61,882	6,798	39,717	8,421	5,969	977
Total past due and non-accrual loans	88,000	12,025	51,265	14,414	8,039	2,257
Current loans receivable	4,400,095	599,438	2,286,283	911,486	386,631	216,257
Total loans receivable	$ 4,488,095	611,463	2,337,548	925,900	394,670	218,514

The following tables present TDRs that occurred during the periods presented and the TDRs that occurred within the previous twelve months that subsequently defaulted during the periods presented:

	Three Months ended June 30, 2015					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	15	—	7	5	—	3
Pre-modification recorded balance	$ 4,038	—	2,828	1,006	—	204
Post-modification recorded balance	$ 3,744	—	2,748	792	—	204
Troubled debt restructurings that subsequently defaulted						
Number of loans	2	—	—	1	—	1
Recorded balance	$ 101	—	—	99	—	2

(Dollars in thousands)	Three Months ended June 30, 2014 Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	13	—	3	8	1	1
Pre-modification recorded balance	$ 19,166	—	1,957	17,160	46	3
Post-modification recorded balance	$ 19,158	—	2,000	17,109	46	3
Troubled debt restructurings that subsequently defaulted						
Number of loans	1	—	—	1	—	—
Recorded balance	$ 10	—	—	10	—	—

(Dollars in thousands)	Six Months ended June 30, 2015 Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	20	—	9	8	—	3
Pre-modification recorded balance	$ 7,123	—	5,010	1,909	—	204
Post-modification recorded balance	$ 6,829	—	4,930	1,695	—	204
Troubled debt restructurings that subsequently defaulted						
Number of loans	4	—	—	1	2	1
Recorded balance	$ 217	—	—	99	116	2

(Dollars in thousands)	Six Months ended June 30, 2014 Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	26	—	8	15	2	1
Pre-modification recorded balance	$ 24,276	—	4,432	19,599	242	3
Post-modification recorded balance	$ 23,639	—	4,475	18,919	242	3
Troubled debt restructurings that subsequently defaulted						
Number of loans	2	—	—	2	—	—
Recorded balance	$ 27	—	—	27	—	—

The modifications for the TDRs that occurred during the six months ended June 30, 2015 and 2014 included one or a combination of the following: an extension of the maturity date, a reduction of the interest rate or a reduction in the principal amount.

In addition to the TDRs that occurred during the period provided in the preceding tables, the Company had TDRs with pre-modification loan balances of $5,494,000 and $6,604,000 for the six months ended June 30, 2015 and 2014, 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 and residential real estate for the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015, the Company had $1,007,000 of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At June 30, 2015, the Company had $1,626,000 of OREO secured by residential real estate properties.

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Note 4. Goodwill

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

(Dollars in thousands)	Three Months ended June 30, 2015	June 30, 2014	Six Months ended June 30, 2015	June 30, 2014
Net carrying value at beginning of period	$ 130,843	129,706	129,706	129,706
Acquisitions	—	—	1,137	—
Net carrying value at end of period	$ 130,843	129,706	130,843	129,706

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

(Dollars in thousands)	June 30, 2015	December 31, 2014
Gross carrying value	$ 171,002	169,865
Accumulated impairment charge	(40,159)	(40,159)
Net carrying value	$ 130,843	129,706

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. In recognition there were no events or circumstances that occurred since the third quarter of 2014 that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value, the Company did not perform interim testing at June 30, 2015. 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.

For additional information on goodwill related to acquisitions, see Note 12.

Note 5. Variable Interest Entities

A VIE is a partnership, limited liability company, trust or other legal entity that meets either one of the following criteria; 1) the entity’s total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or 2) the entity has equity investors that cannot make significant decisions about the entity’s operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has the power to direct the VIE’s significant activities and will absorb a majority of the expected losses, receive a majority of the expected residual returns, or both.

The Company’s VIEs are regularly monitored to determine if any reconsideration events have occurred that could cause the primary beneficiary status to change. A previously unconsolidated VIE is consolidated when the Company becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Company ceases to be the primary beneficiary or the entity is no longer a VIE.

Consolidated 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 VIEs. The underlying activities of the VIEs are community development projects designed primarily to promote community welfare, such as economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents. The maximum exposure to loss in the VIEs is the amount of equity invested and credit extended by the Company. However, the Company has credit protection in the form of indemnification agreements, guarantees, and collateral arrangements. The primary activities of the VIEs are recognized in commercial loans interest income, other non-interest income and other borrowed funds interest expense on the Company's statements of operations and the federal income tax credit allocations from the investments are recognized in the Company's statements of operations as a component of income tax expense. Such related cash flows are recognized in loans originated, principal collected on loans and change in other borrowed funds. The Company has evaluated the variable interests held by the Company in each CDE (NMTC) and LIHTC partnership investment and determined that the Company continues to be the primary beneficiary of such VIEs. As the primary beneficiary, the VIEs' assets, liabilities, and results of operations are included in the Company's consolidated financial statements.

The following table summarizes the carrying amounts of the consolidated VIEs' assets and liabilities included in the Company's statements of financial condition and 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.

	June 30, 2015		December 31, 2014	
(Dollars in thousands)	CDE (NMTC)	LIHTC	CDE (NMTC)	LIHTC
Assets				
Loans receivable	$ 36,114	—	36,077	—
Premises and equipment, net	—	12,893	—	13,106
Accrued interest receivable	113	—	116	—
Other assets	478	346	616	258
Total assets	$ 36,705	13,239	36,809	13,364
Liabilities				
Other borrowed funds	$ 4,555	1,663	4,555	1,690
Accrued interest payable	4	5	4	5
Other liabilities	67	—	185	—
Total liabilities	$ 4,626	1,668	4,744	1,695

The following table summarizes the net investment loss of the consolidated VIEs and the associated tax credits included in the Company's statements of operations during the three and six months ended June 30, 2015 and 2014.

	Three Months ended				Six Months ended			
	June 30, 2015		June 30, 2014		June 30, 2015		June 30, 2014	
(Dollars in thousands)	CDE (NMTC)	LIHTC	CDE (NMTC)	LIHTC	CDE (NMTC)	LIHTC	CDE (NMTC)	LIHTC
VIE loss	$ (899)	(251)	(896)	(271)	(690)	(503)	(687)	(541)
Federal income tax credits	1,165	293	1,164	317	1,165	587	1,164	635

Unconsolidated Variable Interest Entities
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 have no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the securities held by third parties. The trust subsidiaries are not included in the Company's consolidated financial statements because the sole asset of each trust subsidiary is a receivable from the Company, even though the Company owns all of the voting equity shares of the trust subsidiaries, has fully guaranteed the obligations of the trust subsidiaries and may have the right to redeem the third party securities under certain circumstances. The Company reports the trust preferred securities issued to the trust subsidiaries as subordinated debentures on the Company's statements of financial condition.

Note 6. Securities Sold Under Agreements to Repurchase

The Company's securities sold under agreements to repurchase ("repurchase agreements") amounted to $408,935,000 and $397,107,000 at June 30, 2015 and December 31, 2014, respectively, are almost entirely overnight in nature, and are secured by residential mortgage-backed securities with carrying values of $444,695,000 and $479,345,000, respectively. Securities are pledged to customers at the time of the transaction in an amount at least equal to the outstanding balance and are held in custody accounts by third parties. The fair value of collateral is continually monitored and additional collateral is provided as deemed appropriate.

Note 7. Derivatives and Hedging Activities

As of June 30, 2015, 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]		Payment 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 counterparty pays the Company the variable interest rate.
[2] No cash will be exchanged prior to the beginning of the payment term.

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

In October 2014, the interest rate swap with the $160,000,000 notional amount began its payment term. The Company designated wholesale deposits as the cash flow hedge and these deposits were determined to be fully effective during the current period. As such, no amount of ineffectiveness has been included in the Company's statements of operations for the six months ended June 30, 2015. Therefore, the aggregate fair value of the interest rate swap was recorded in other liabilities with changes recorded in other comprehensive income. The Company expects the hedge to remain highly effective during the remaining term of the interest rate swap. Interest expense recorded on this interest rate swap totaled $2,717,000 during 2015 and is reported as a component of interest expense on deposits. Unless the interest rate swap is terminated during the next year, the Company expects $5,480,000 of the unrealized loss reported in other comprehensive income at June 30, 2015 to be reclassified to interest expense during the next twelve months.

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The following table presents the pre-tax gains or losses recorded in accumulated other comprehensive income and the Company's statements of operations relating to the interest rate swap derivative financial instruments:

(Dollars in thousands)	Three Months ended June 30, 2015	Three Months ended June 30, 2014	Six Months ended June 30, 2015	Six Months ended June 30, 2014
Interest rate swaps				
Amount of gain (loss) recognized in OCI (effective portion)	$ 3,896	(6,190)	(2,097)	(11,669)
Amount of loss reclassified from OCI to interest expense	(1,257)	—	(2,508)	—
Amount of loss recognized in other non-interest expense (ineffective portion)	—	—	—	—

The following table discloses the offsetting of financial liabilities and interest rate swap derivative liabilities. There were no interest rate swap derivative assets at the dates presented.

(Dollars in thousands)	June 30, 2015 Gross Amounts of Recognized Liabilities	June 30, 2015 Gross Amounts Offset in the Statements of Financial Position	June 30, 2015 Net Amounts of Liabilities Presented in the Statements of Financial Position	December 31, 2014 Gross Amounts of Recognized Liabilities	December 31, 2014 Gross Amounts Offset in the Statements of Financial Position	December 31, 2014 Net Amounts of Liabilities Presented in the Statements of Financial Position
Interest rate swaps	$ 16,256	—	16,256	16,668	—	16,668

Pursuant to the interest rate swap agreements, the Company pledged collateral to the counterparty in the form of investment securities totaling $23,821,000 at June 30, 2015. There was $0 collateral pledged from the counterparty to the Company as of June 30, 2015. 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 8. Other Expenses

Other expenses consists of the following:

(Dollars in thousands)	Three Months ended June 30, 2015	Three Months ended June 30, 2014	Six Months ended June 30, 2015	Six Months ended June 30, 2014
Consulting and outside services	$ 1,804	764	3,275	1,390
Debit card expenses	1,533	1,501	2,885	3,002
VIE write-downs, losses and other expenses	1,694	1,732	2,301	2,352
Postage	927	795	1,841	1,644
Employee expenses	991	858	1,795	1,579
Loan expenses	1,182	607	1,791	1,143
Printing and supplies	906	855	1,696	1,669
Telephone	828	720	1,637	1,540
Checking and operating expenses	742	862	1,447	1,554
Accounting and audit fees	409	385	859	853
ATM expenses	303	305	569	568

Legal fees	183	419	448	638
Other	933	882	1,812	1,702
Total other expenses	$ 12,435	10,685	22,356	19,634

Note 9. Accumulated Other Comprehensive Income

The following table illustrates the activity within accumulated other comprehensive income by component, net of tax:

(Dollars in thousands)	Gains on Available-For-Sale Securities	Gains (Losses) on Derivatives Used for Cash Flow Hedges	Total
Balance at December 31, 2013	$ 8,485	1,160	9,645
Other comprehensive income (loss) before reclassification	21,628	(7,141)	14,487
Amounts reclassified from accumulated other comprehensive income	74	—	74
Net current period other comprehensive income (loss)	21,702	(7,141)	14,561
Balance at June 30, 2014	$ 30,187	(5,981)	24,206
Balance at December 31, 2014	$ 27,945	(10,201)	17,744
Other comprehensive (loss) income before reclassification	(12,574)	(1,294)	(13,868)
Amounts reclassified from accumulated other comprehensive income	28	1,536	1,564
Net current period other comprehensive (loss) income	(12,546)	242	(12,304)
Balance at June 30, 2015	$ 15,399	(9,959)	5,440

Note 10. 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:

	Three Months ended		Six Months ended	
(Dollars in thousands, except per share data)	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net income available to common stockholders, basic and diluted	$ 29,335	28,677	57,005	55,407
Average outstanding shares - basic	75,530,591	74,467,576	75,369,366	74,452,568
Add: dilutive stock options and awards	35,064	32,084	38,255	38,891
Average outstanding shares - diluted	75,565,655	74,499,660	75,407,621	74,491,459
Basic earnings per share	$ 0.39	0.38	0.76	0.74
Diluted earnings per share	$ 0.39	0.38	0.76	0.74

There were no stock options or restricted stock awards excluded from the diluted average outstanding share calculation for the six months ended June 30, 2015 and 2014, because to do so would have been anti-dilutive for those periods. Anti-dilution occurs when the exercise price of a stock option or the unrecognized compensation cost per share of a restricted stock award exceeds the market price of the Company’s stock.

Note 11. 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 six month periods ended June 30, 2015 and 2014.

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 June 30, 2015.

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.

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 June 30, 2015	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 and federal agency	$ 51,497	—	51,497	—
U.S. government sponsored enterprises	80,761	—	80,761	—
State and local governments	958,052	—	958,052	—
Corporate bonds	355,849	—	355,849	—
Residential mortgage-backed securities	915,671	—	915,671	—
Total assets measured at fair value on a recurring basis	$ 2,361,830	—	2,361,830	—
Interest rate swaps	$ 16,256	—	16,256	—
Total liabilities measured at fair value on a recurring basis	$ 16,256	—	16,256	—

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Fair Value December 31, 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 and federal agency	$ 44	—	44	—
U.S. government sponsored enterprises	21,945	—	21,945	—
State and local governments	997,969	—	997,969	—
Corporate bonds	314,854	—	314,854	—
Residential mortgage-backed securities	1,052,616	—	1,052,616	—
Total assets measured at fair value on a recurring basis	$ 2,387,428	—	2,387,428	—
Interest rate swaps	$ 16,668	—	16,668	—
Total liabilities measured at fair value on a recurring basis	$ 16,668	—	16,668	—

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 June 30, 2015.

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 June 30, 2015	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	$ 5,021	—	—	5,021
Collateral-dependent impaired loans, net of ALLL	12,192	—	—	12,192
Total assets measured at fair value on a non-recurring basis	$ 17,213	—	—	17,213

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Fair Value December 31, 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	$ 3,000	—	—	3,000
Collateral-dependent impaired loans, net of ALLL	15,480	—	—	15,480
Total assets measured at fair value on a non-recurring basis	$ 18,480	—	—	18,480

Non-recurring Measurements Using Significant Unobservable Inputs (Level 3)
The following tables present 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)	June 30, 2015	Valuation Technique	Unobservable Input	Range (Weighted-Average) [1]
Other real estate owned	$ 1,479	Sales comparison approach	Selling costs	7.0% - 10.0% (7.4%)
	3,542	Combined approach	Selling costs	8.0% - 8.0% (8.0%)
	$ 5,021			
Collateral-dependent impaired loans, net of ALLL	$ 253	Cost approach	Selling costs	0.0% - 10.0% (5.6%)
	6,179	Sales comparison approach	Selling costs	0.0% - 10.0% (8.8%)
			Adjustment to comparables	0.0% - 5.0% (0.0%)
	5,760	Combined approach	Selling costs	10.0% - 10.0% (10.0%)
			Adjustment to comparables	20.0% - 20.0% (20.0%)
	$ 12,192			

	Fair Value	Quantitative Information about Level 3 Fair Value Measurements		
(Dollars in thousands)	December 31, 2014	Valuation Technique	Unobservable Input	Range (Weighted-Average) [1]
Other real estate owned	$ 2,393	Sales comparison approach	Selling costs	0.0% - 10.0% (5.8%)
			Adjustment to comparables	0.0% - 7.0% (0.5%)
	607	Combined approach	Selling costs	10.0% - 10.0% (10.0%)
			Discount rate	10.0% - 10.0% (10.0%)
	$ 3,000			
Collateral-dependent impaired loans, net of ALLL	$ 6	Cost approach	Selling costs	7.0% - 7.0% (7.0%)
	5,335	Income approach	Selling costs	8.0% - 10.0% (8.5%)
			Discount rate	8.3% - 12.0% (9.1%)
	6,330	Sales comparison approach	Selling costs	0.0% - 10.0% (8.3%)
			Adjustment to comparables	0.0% - 30.0% (3.5%)
	3,809	Combined approach	Selling costs	8.0% - 10.0% (9.2%)
			Adjustment to comparables	10.0% - 20.0% (16.2%)
	$ 15,480			

[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.

Federal Home Loan Bank advances: fair value of non-callable Federal Home Loan Bank (“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.

Securities sold under agreements to repurchase 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 June 30, 2015	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	$355,719	355,719	—	—
Investment securities, available-for-sale	2,361,830	—	2,361,830	—
Investment securities, held-to-maturity	593,314	—	608,781	—
Loans held for sale	53,201	53,201	—	—
Loans receivable, net of ALLL	4,676,912	—	4,608,899	144,478
Accrued interest receivable	44,563	44,563	—	—
Non-marketable equity securities	24,914	—	24,914	—
Total financial assets	$8,110,453	453,483	7,604,424	144,478
Financial liabilities				
Deposits	$6,558,657	5,215,156	1,347,635	—
FHLB advances	329,470	—	339,179	—
Repurchase agreements and other borrowed funds	415,600	—	415,600	—
Subordinated debentures	125,776	—	78,442	—
Accrued interest payable	3,790	3,790	—	—
Interest rate swaps	16,256	—	16,256	—
Total financial liabilities	$7,449,549	5,218,946	2,197,112	—

(Dollars in thousands)	Carrying Amount December 31, 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	$442,409	442,409	—	—
Investment securities, available-for-sale	2,387,428	—	2,387,428	—
Investment securities, held-to-maturity	520,997	—	550,946	—
Loans held for sale	46,726	46,726	—	—
Loans receivable, net of ALLL	4,358,342	—	4,288,417	149,769
Accrued interest receivable	40,587	40,587	—	—
Non-marketable equity securities	52,868	—	52,868	—
Total financial assets	$7,849,357	529,722	7,279,659	149,769
Financial liabilities				
Deposits	$6,345,212	4,928,771	1,421,234	—
FHLB advances	296,944	—	312,363	—
Repurchase agreements and other borrowed funds	404,418	—	404,418	—
Subordinated debentures	125,705	—	76,711	—

Accrued interest payable	4,155	4,155	—	—
Interest rate swaps	16,668	—	16,668	—
Total financial liabilities	$ 7,193,102	4,932,926	2,231,394	—

Note 12. Mergers and Acquisitions

On February 28, 2015, the Company acquired 100 percent of the outstanding common stock of Montana Community Banks, Inc. and its wholly-owned subsidiary, Community Bank, Inc., a community bank based in Ronan, Montana. CB provides banking services to individuals and businesses in western Montana, with banking offices located in Missoula, Polson, Ronan and Pablo, Montana. The acquisition allowed the Company to add new markets in western Montana and complimented the Company's presence in Missoula and Polson, Montana. The branches of CB have become a part of the Glacier Bank and First Security Bank of Missoula bank divisions. The CB acquisition was valued at $22,995,000 and resulted in the Company issuing 443,644 shares of its common stock and $12,219,000 in cash in exchange for all of CB's outstanding common stock shares. The fair value of the Company shares issued was determined on the basis of the closing market price of the Company's common stock on the February 28, 2015 acquisition date. The excess of the fair value of consideration transferred over total identifiable net assets was recorded as goodwill. The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and CB. None of the goodwill is deductible for income tax purposes as the acquisition was accounted for as a tax-free exchange.

The assets and liabilities of CB were recorded on the Company's consolidated statements of financial condition at their estimated fair values as of the February 28, 2015 acquisition date and CB's results of operations have been included in the Company's consolidated statements of operations since that date. The following table discloses the calculation of the fair value of the consideration transferred, the total identifiable net assets acquired and the resulting goodwill arising from the CB acquisition:

(Dollars in thousands)	February 28, 2015
Fair value of consideration transferred	
Fair value of Company shares issued, net of equity issuance costs	$ 10,776
Cash consideration for outstanding shares	12,219
Contingent consideration	—
Total fair value of consideration transferred	22,995
Recognized amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets acquired	
Cash and cash equivalents	31,931
Investment securities	42,350
Loans receivable	84,689
Core deposit intangible	2,087
Accrued income and other assets	13,580
Total identifiable assets acquired	174,637
Liabilities assumed	
Deposits	146,820
FHLB advances and repurchase agreements	3,292
Accrued expenses and other liabilities	2,667
Total liabilities assumed	152,779
Total identifiable net assets	21,858
Goodwill recognized	$ 1,137

The fair value of the CB assets acquired includes loans with fair values of $84,689,000 and the gross principal and contractual interest due under the CB contracts is $88,817,000. The Company evaluated the principal and contractual interest due at the acquisition date and determined that an insignificant amount is not expected to be collectible.

Core deposit intangible assets related to the CB acquisition totaled $2,087,000 with an estimated life of 10 years.

The Company incurred $1,427,000 of third-party acquisition-related costs in connection with the CB acquisition during the six months ended June 30, 2015. 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 CB was approximately $3,028,000 and the net loss was approximately $173,000 from February 28, 2015 to June 30, 2015. The following unaudited pro forma summary presents consolidated information of the Company as if the CB acquisition had occurred on January 1, 2014:

(Dollars in thousands)	Three Months ended June 30, 2015	Three Months ended June 30, 2014	Six Months ended June 30, 2015	Six Months ended June 30, 2014
Net interest income and non-interest income	$ 97,050	91,956	191,004	180,734
Net income	29,335	28,882	57,006	55,798

Note 13. Subsequent Event

On July 30, 2015, the Company announced the signing of a definitive agreement to acquire Cañon National Bank, a community bank based in Cañon City, Colorado. Cañon National Bank provides community banking services to individuals and businesses in south central Colorado, with banking offices located in Colorado Springs, Pueblo, Pueblo West, Cañon City, Colorado City and Florence, Colorado. As of June 30, 2015, Cañon National Bank had total assets of $253,000,000, gross loans of $159,000,000 and total deposits of $225,000,000. Upon closing of the transaction, which is anticipated to take place in the fourth quarter of 2015, the branches of Cañon National Bank will be merged into the Bank and will become part of the Bank of the San Juans division.

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, 2014 (the "2014 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;
- 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 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 Chief Executive Officer, the senior management team and the Presidents of the Glacier Bank ("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 February 28, 2015, the Company completed the acquisition of Montana Community Banks, Inc., and its subsidiary, Community Bank, Inc., which has community banking offices in Missoula, Polson, Ronan and Pablo, Montana (collectively, "CB"). The branches of CB have become a part of the Glacier Bank and First Security Bank of Missoula bank divisions. The total purchase price of the acquisition was $23.0 million, consisting of $12.2 million of cash paid and 443,644 shares of the Company's common stock issued which resulted in $1.1 million of goodwill. The Company successfully converted CB's core system over to the Company's core system during the current quarter. The Company incurred $1.4 million of legal and professional expenses in connection with the CB acquisition and conversion during the current year. The Company's results of operations and financial condition include the acquisition of CB from the February 28, 2015 acquisition date.

Financial Condition Analysis

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

(Dollars in thousands)	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Jun 30, 2014	$ Change from Mar 31, 2015	$ Change from Dec 31, 2014	$ Change from Jun 30, 2014
Cash and cash equivalents	$355,719	183,466	442,409	202,358	172,253	(86,690)	153,361
Investment securities, available-for-sale	2,361,830	2,544,093	2,387,428	2,559,411	(182,263)	(25,598)	(197,581)
Investment securities, held-to-maturity	593,314	570,285	520,997	483,557	23,029	72,317	109,757
Total investment securities	2,955,144	3,114,378	2,908,425	3,042,968	(159,234)	46,719	(87,824)
Loans receivable							
Residential real estate	635,674	637,465	611,463	587,340	(1,791)	24,211	48,334
Commercial	3,529,274	3,426,016	3,263,448	3,023,915	103,258	265,826	505,359
Consumer and other	642,483	624,188	613,184	592,024	18,295	29,299	50,459
Loans receivable	4,807,431	4,687,669	4,488,095	4,203,279	119,762	319,336	604,152
Allowance for loan and lease losses	(130,519)	(129,856)	(129,753)	(130,636)	(663)	(766)	117
Loans receivable, net	4,676,912	4,557,813	4,358,342	4,072,643	119,099	318,570	604,269
Other assets	602,035	619,439	597,331	572,125	(17,404)	4,704	29,910
Total assets	$8,589,810	8,475,096	8,306,507	7,890,094	114,714	283,303	699,716

Total investment securities decreased $159 million, or 5 percent, during the current quarter and decreased $88 million, or 3 percent, from June 30, 2014. The decrease in the investment portfolio during the current quarter was the result of the Company redeploying security payments into the loan portfolio, although the Company continues to selectively purchase investment securities in the volatile market with its excess liquidity. Investment securities represented 34 percent of total assets at June 30, 2015 compared to 35 percent at December 31, 2014 and 39 percent at June 30, 2014.

The loan portfolio increased $120 million, or 3 percent, during the current quarter. The loan category with the largest dollar and percent increase during the current quarter was commercial loans which increased $103 million, or 3 percent. Excluding the CB acquisition and the First National Bank of the Rockies ("FNBR") acquisition in August 2014, the loan portfolio increased $382 million, or 9 percent, since June 30, 2014 with $322 million of the increase coming from growth in commercial loans.

Effective May 31, 2015, the merger of the Federal Home Loan Bank ("FHLB") of Seattle and the FHLB of Des Moines was completed with minimal disruption to the Company. Immediately following the merger, the FHLB of Seattle stock of $29.4 million was redeemed by FHLB of Des Moines.

Liabilities

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

(Dollars in thousands)	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Jun 30, 2014	$ Change from Mar 31, 2015	$ Change from Dec 31, 2014	$ Change from Jun 30, 2014
Non-interest bearing deposits	$ 1,731,015	1,675,451	1,632,403	1,464,938	55,564	98,612	266,077
Interest bearing deposits	4,827,642	4,783,341	4,712,809	4,280,898	44,301	114,833	546,744
Securities sold under agreements to repurchase	408,935	425,652	397,107	315,240	(16,717)	11,828	93,695
FHLB advances	329,470	298,148	296,944	607,305	31,322	32,526	(277,835)
Other borrowed funds	6,665	6,703	7,311	7,367	(38)	(646)	(702)
Subordinated debentures	125,776	125,741	125,705	125,633	35	71	143
Other liabilities	103,856	106,536	106,181	78,698	(2,680)	(2,325)	25,158
Total liabilities	$ 7,533,359	7,421,572	7,278,460	6,880,079	111,787	254,899	653,280

Non-interest bearing deposits of $1.731 billion at June 30, 2015, increased $55.6 million, or 3 percent, from the prior quarter. Excluding the CB and FNBR acquisitions, non-interest bearing deposits increased $144 million, or 10 percent, from June 30, 2014. Interest bearing deposits of $4.828 billion at June 30, 2015 included $197 million of wholesale deposits (i.e., brokered deposits classified as NOW, money market deposits and certificate accounts). Excluding the $14.1 million decrease in wholesale deposits, interest bearing deposits at June 30, 2015 increased $58.4 million, or 1 percent, during the current quarter. Excluding the CB and FNBR acquisitions and the decrease of $18.1 million in wholesale deposits, interest bearing deposits at June 30, 2015 increased $230 million, or 6 percent, from June 30, 2014.

FHLB advances of $329 million at June 30, 2015 increased $31.3 million, or 11 percent, during the current quarter as the Company took advantage of attractive term borrowings that were available from the FHLB of Seattle prior to the merger with FHLB of Des Moines. FHLB advances as of June 30, 2015, decreased $278 million, or 46 percent, from June 30, 2014 as growth in deposits and continued change in the balance sheet composition reduced the need for additional borrowings.

Stockholders’ Equity

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

(Dollars in thousands, except per share data)	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Jun 30, 2014	$ Change from Mar 31, 2015	$ Change from Dec 31, 2014	$ Change from Jun 30, 2014
Common equity	$ 1,051,011	1,035,497	1,010,303	985,809	15,514	40,708	65,202
Accumulated other comprehensive income	5,440	18,027	17,744	24,206	(12,587)	(12,304)	(18,766)
Total stockholders’ equity	1,056,451						