

GLACIER BANCORP INC
Form 10-Q
August 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2012

.. **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)

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MONTANA (State or other jurisdiction of incorporation or organization)	81-0519541 (IRS Employer Identification No.)
49 Commons Loop, Kalispell, Montana (Address of principal executive offices)	59901 (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. 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). 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 <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Smaller reporting Company <input type="checkbox"/>

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

The number of shares of Registrant's common stock outstanding on July 25, 2012 was 71,931,972. No preferred shares are issued or outstanding.

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Quarterly Report on Form 10-Q

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Table of Contents**Glacier Bancorp, Inc.****Unaudited Condensed Consolidated Statements of Financial Condition**

(Dollars in thousands, except per share data)	June 30, 2012	December 31, 2011
Assets		
Cash on hand and in banks	\$ 92,119	104,674
Interest bearing cash deposits	48,300	23,358
Cash and cash equivalents	140,419	128,032
Investment securities, available-for-sale	3,404,282	3,126,743
Loans held for sale	88,442	95,457
Loans receivable	3,445,196	3,466,135
Allowance for loan and lease losses	(137,459)	(137,516)
Loans receivable, net	3,307,737	3,328,619
Premises and equipment, net	159,432	158,872
Other real estate owned	69,170	78,354
Accrued interest receivable	37,108	34,961
Deferred tax asset	22,892	31,081
Core deposit intangible, net	7,197	8,284
Goodwill	106,100	106,100
Non-marketable equity securities	50,371	49,694
Other assets	40,952	41,709
Total assets	\$ 7,434,102	7,187,906
Liabilities		
Non-interest bearing deposits	\$ 1,066,662	1,010,899
Interest bearing deposits	3,915,607	3,810,314
Securities sold under agreements to repurchase	466,784	258,643
Federal Home Loan Bank advances	906,029	1,069,046
Other borrowed funds	9,973	9,995
Subordinated debentures	125,347	125,275
Accrued interest payable	5,076	5,825
Other liabilities	62,443	47,682
Total liabilities	6,557,921	6,337,679
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	719	719
Paid-in capital	641,656	642,882
Retained earnings - substantially restricted	189,753	173,139
Accumulated other comprehensive income	44,053	33,487
Total stockholders equity	876,181	850,227
Total liabilities and stockholders equity	\$ 7,434,102	7,187,906

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Number of common stock shares issued and outstanding	71,931,386	71,915,073
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See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Glacier Bancorp, Inc.****Unaudited Condensed Consolidated Statements of Operations**

(Dollars in thousands, except per share data)	Three Months ended June 30,		Six Months ended June 30,	
	2012	2011	2012	2011
Interest Income				
Residential real estate loans	\$ 7,495	8,156	15,279	16,872
Commercial loans	30,430	32,977	61,471	66,035
Consumer and other loans	8,813	10,211	17,983	20,661
Investment securities	17,454	20,218	37,343	36,367
Total interest income	64,192	71,562	132,076	139,935
Interest Expense				
Deposits	4,609	6,584	9,563	13,672
Securities sold under agreements to repurchase	303	319	602	676
Federal Home Loan Bank advances	3,218	3,093	6,599	5,641
Federal funds purchased and other borrowed funds	61	62	123	95
Subordinated debentures	853	1,273	1,755	2,916
Total interest expense	9,044	11,331	18,642	23,000
Net Interest Income	55,148	60,231	113,434	116,935
Provision for loan losses	7,925	19,150	16,550	38,650
Net interest income after provision for loan losses	47,223	41,081	96,884	78,285
Non-Interest Income				
Service charges and other fees	11,291	11,330	21,783	21,538
Miscellaneous loan fees and charges	1,113	928	2,059	1,905
Gain on sale of loans	7,522	4,291	14,335	8,985
Loss on sale of investments		(591)		(467)
Other income	1,865	1,893	3,952	3,285
Total non-interest income	21,791	17,851	42,129	35,246
Non-Interest Expense				
Compensation and employee benefits	23,684	21,170	47,244	42,773
Occupancy and equipment	5,825	5,728	11,793	11,682
Advertising and promotions	1,713	1,635	3,115	3,119
Outsourced data processing	788	791	1,634	1,564
Other real estate owned	2,199	5,062	9,021	7,161
Federal Deposit Insurance Corporation premiums	1,300	2,197	3,012	4,521
Core deposit intangibles amortization	535	590	1,087	1,317
Other expense	10,146	9,047	18,329	16,559
Total non-interest expense	46,190	46,220	95,235	88,696

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Income Before Income Taxes		22,824	12,712	43,778	24,835
Federal and state income tax expense		3,843	826	8,464	2,664
Net Income	\$	18,981	11,886	35,314	22,171
Basic earnings per share	\$	0.26	0.17	0.49	0.31
Diluted earnings per share	\$	0.26	0.17	0.49	0.31
Dividends declared per share	\$	0.13	0.13	0.26	0.26
Average outstanding shares - basic		71,928,697	71,915,073	71,921,885	71,915,073
Average outstanding shares - diluted		71,928,853	71,915,073	71,921,990	71,915,073

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Glacier Bancorp, Inc.****Unaudited Condensed Consolidated Statements of Comprehensive Income**

(Dollars in thousands)	Three Months ended June 30,		Six Months ended June 30,	
	2012	2011	2012	2011
Net Income	\$ 18,981	11,886	35,314	22,171
Other Comprehensive Income, Net of Tax				
Unrealized holding gains on available-for-sale securities	13,214	36,154	23,232	39,182
Reclassification adjustment for losses included in net income		591		467
Net unrealized gains on securities	13,214	36,745	23,232	39,649
Tax effect	(5,140)	(14,400)	(9,037)	(15,538)
Net of tax amount	8,074	22,345	14,195	24,111
Change in fair value of derivatives used for cash flow hedges	(9,051)		(5,939)	
Tax effect	3,521		2,310	
Net of tax amount	(5,530)		(3,629)	
Total other comprehensive income, net of tax	2,544	22,345	10,566	24,111
Total Comprehensive Income	\$ 21,525	34,231	45,880	46,282

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Glacier Bancorp, Inc.****Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity****Six Months ended June 30, 2012 and 2011**

(Dollars in thousands, except per share data)	Common Stock		Paid-in	Retained	Accumulated	Total
	Shares	Amount	Capital	Earnings Substantially Restricted	Other Comprehensive Income	
Balance at December 31, 2010	71,915,073	\$ 719	643,894	193,063	528	838,204
Comprehensive income				22,171	24,111	46,282
Cash dividends declared (\$0.26 per share)				(18,698)		(18,698)
Stock-based compensation and related taxes			(1,016)			(1,016)
Balance at June 30, 2011	71,915,073	\$ 719	642,878	196,536	24,639	864,772
Balance at December 31, 2011	71,915,073	\$ 719	642,882	173,139	33,487	850,227
Comprehensive income				35,314	10,566	45,880
Cash dividends declared (\$0.26 per share)				(18,700)		(18,700)
Stock issuances under stock incentive plans	16,313		233			233
Stock-based compensation and related taxes			(1,459)			(1,459)
Balance at June 30, 2012	71,931,386	\$ 719	641,656	189,753	44,053	876,181

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Glacier Bancorp, Inc.****Unaudited Condensed Consolidated Statements of Cash Flows**

(Dollars in thousands)	Six Months ended June 30,	
	2012	2011
Operating Activities		
Net cash provided by operating activities	\$ 133,697	135,267
Investing Activities		
Proceeds from sales, maturities and prepayments of investment securities, available-for-sale	871,472	429,256
Purchases of investment securities, available-for-sale	(1,154,990)	(796,155)
Principal collected on loans	441,318	459,488
Loans originated or acquired	(478,541)	(397,174)
Net addition of premises and equipment and other real estate owned	(5,501)	(7,337)
Proceeds from sale of other real estate owned	18,073	17,443
Net (sale) purchase of non-marketable equity securities	(671)	14,278
Net cash used in investment activities	(308,840)	(280,201)
Financing Activities		
Net increase in deposits	161,056	182,897
Net increase in securities sold under agreements to repurchase	208,141	1,900
Net decrease in Federal Home Loan Bank advances	(163,017)	(40,080)
Net increase in federal funds purchased and other borrowed funds	50	42,865
Cash dividends paid	(18,700)	(18,698)
Net cash provided by financing activities	187,530	168,884
Net increase in cash and cash equivalents	12,387	23,950
Cash and cash equivalents at beginning of period	128,032	105,091
Cash and cash equivalents at end of period	\$ 140,419	129,041
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$ 19,391	23,985
Cash paid during the period for income taxes	8,221	3,681
Sale and refinancing of other real estate owned	668	2,521
Other real estate acquired in settlement of loans	16,372	49,570
See accompanying notes to unaudited condensed consolidated financial statements.		

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Glacier Bancorp, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1) Nature of Operations and Summary of Significant Accounting Policies
General

Glacier Bancorp, Inc. (the Company) is a Montana corporation headquartered in Kalispell, Montana. The Company provides a full range of banking services to individual and corporate customers in Montana, Idaho, Wyoming, Colorado, Utah and Washington through eleven divisions of its wholly-owned bank subsidiary, Glacier Bank (the Bank). The Company is subject to competition from other financial service providers. The Company is also subject to the regulations of certain government agencies and undergoes periodic examinations by those regulatory authorities.

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, 2012, the results of operations and comprehensive income for the three and six month periods ended June 30, 2012 and 2011, and changes in stockholders' equity and cash flows for the six month periods ended June 30, 2012 and 2011. The condensed consolidated statement of financial condition of the Company as of December 31, 2011 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, 2011. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results anticipated for the year ending December 31, 2012.

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 valuations related to investments and real estate acquired in connection with foreclosures or in satisfaction of loans, and 3) the evaluation of goodwill impairment. In connection with the determination of the ALLL and other real estate valuation estimates, management obtains independent appraisals (new or updated) for significant items. Estimates relating to investments are obtained from independent third parties. Estimates relating to the evaluation of goodwill for impairment are determined based on independent party valuations and internal calculations using significant independent party inputs.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the parent holding company and the Bank. All significant inter-company transactions have been eliminated in consolidation.

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

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The Company owns the following trust subsidiaries for the purpose of issuing trust preferred securities: Glacier Capital Trust II, Glacier Capital Trust III, Glacier Capital Trust IV, Citizens (ID) Statutory Trust I, Bank of the San Juans Bancorporation Trust I, First Company Statutory Trust 2001 and First Company Statutory Trust 2003. The trust subsidiaries are not consolidated into the Company's financial statements.

On April 30, 2012, the Company combined its eleven bank subsidiaries into eleven bank divisions within Glacier Bank, such divisions operating with the same names and management teams as before the combination. Prior to the combination of the bank subsidiaries, the Company considered its eleven bank subsidiaries, GORE, and the parent holding company to be its operating segments. Subsequent to the combination of the bank subsidiaries, the Company considers the Bank to be its sole operating segment. The change to combining the bank subsidiaries into a single segment is appropriate 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.

Variable Interest Entities

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

The following table summarizes the carrying amounts of the VIE's assets and liabilities included in the Company's consolidated financial statements at June 30, 2012 and December 31, 2011:

(Dollars in thousands)	June 30, 2012		December 31, 2011	
	CDE (NMTC)	LIHTC	CDE (NMTC)	LIHTC
Assets				
Loans receivable	\$ 35,443		32,748	
Premises and equipment, net		15,700		15,996
Accrued interest receivable	112		116	
Other assets	1,233	66	1,439	31
Total assets	\$ 36,788	15,766	34,303	16,027
Liabilities				
Other borrowed funds	\$ 4,629	3,306	4,629	3,306
Accrued interest payable	3	6	4	9
Other liabilities	92	193	186	363
Total liabilities	\$ 4,724	3,505	4,819	3,678

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

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Impact of Recent Authoritative Accounting Guidance

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

In September 2011, FASB amended FASB ASC Topic 350, *Intangibles - Goodwill and Other*. The amendment provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If the entity concludes it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendment is effective prospectively during interim and annual periods beginning after December 15, 2011 and early adoption is permitted. The Company has evaluated the impact of the adoption of this amendment and determined there was not a material effect on the Company's financial position or results of operations.

In June 2011, FASB amended FASB ASC Topic 220, *Comprehensive Income*. The amendment provides an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. Accounting Standards Update No. 2011-12, *Comprehensive Income (Topic 220)* defers the specific requirement of the amendment to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. The amendments are effective retrospectively during interim and annual periods beginning after December 15, 2011. The Company has evaluated the impact of the adoption of this amendment and determined there was not a material effect on the Company's financial position or results of operations.

In May 2011, FASB amended FASB ASC Topic 820, *Fair Value Measurement*. The amendment achieves common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amendment changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendment is effective prospectively during interim and annual periods beginning after December 15, 2011. The Company has evaluated the impact of the adoption of this amendment and determined there was not a material effect on the Company's financial position or results of operations.

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2) Investment Securities, Available-for-Sale

A comparison of the amortized cost and estimated fair value of the Company's investment securities designated as available-for-sale is presented below.

(Dollars in thousands)	Weighted Yield	Amortized Cost	June 30, 2012		Fair Value
			Gross Unrealized Gains	Losses	
U.S. government and federal agency					
Maturing after one year through five years	1.62%	\$ 202	3		205
U.S. government sponsored enterprises					
Maturing within one year	2.37%	3,218	12		3,230
Maturing after one year through five years	2.34%	21,727	458		22,185
Maturing after five years through ten years	1.90%	73			73
	2.34%	25,018	470		25,488
State and local governments					
Maturing within one year	0.99%	45,759	11	(5)	45,765
Maturing after one year through five years	2.14%	127,290	3,788	(121)	130,957
Maturing after five years through ten years	2.64%	52,835	1,699	(38)	54,496
Maturing after ten years	4.78%	886,899	75,645	(682)	961,862
	4.22%	1,112,783	81,143	(846)	1,193,080
Corporate bonds					
Maturing within one year	1.39%	19,457	27	(4)	19,480
Maturing after one year through five years	2.41%	121,697	810	(351)	122,156
Maturing after five years through ten years	2.30%	18,197	166	(73)	18,290
	2.27%	159,351	1,003	(428)	159,926
Collateralized debt obligations					
Maturing after ten years	8.03%	2,848		(114)	2,734
Residential mortgage-backed securities	1.75%	2,017,135	11,358	(5,644)	2,022,849
Total investment securities	2.61%	\$ 3,317,337	93,977	(7,032)	3,404,282

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(Dollars in thousands)	Weighted Yield	Amortized Cost	December 31, 2011		Fair Value
			Gross Unrealized Gains	Losses	
U.S. government and federal agency					
Maturing after one year through five years	1.62%	\$ 204	4		208
U.S. government sponsored enterprises					
Maturing within one year	1.58%	3,979	17		3,996
Maturing after one year through five years	2.36%	26,399	682		27,081
Maturing after five years through ten years	1.90%	78			78
	2.26%	30,456	699		31,155
State and local governments					
Maturing within one year	1.31%	4,786	3	(2)	4,787
Maturing after one year through five years	2.22%	89,752	2,660	(22)	92,390
Maturing after five years through ten years	2.59%	63,143	2,094	(19)	65,218
Maturing after ten years	4.84%	845,657	57,138	(535)	902,260
	4.44%	1,003,338	61,895	(578)	1,064,655
Corporate bonds					
Maturing after one year through five years	2.55%	60,810	261	(1,264)	59,807
Maturing after five years through ten years	2.38%	2,409	21		2,430
	2.54%	63,219	282	(1,264)	62,237
Collateralized debt obligations					
Maturing after ten years	8.03%	5,648		(282)	5,366
Residential mortgage-backed securities	1.70%	1,960,167	10,138	(7,183)	1,963,122
Total investment securities	2.64%	\$ 3,063,032	73,018	(9,307)	3,126,743

Included in the residential mortgage-backed securities are \$53,145,000 and \$49,252,000 as of June 30, 2012 and December 31, 2011, respectively, of non-guaranteed private label whole loan mortgage-backed securities of which none of the underlying collateral is considered subprime.

Maturities of securities do not reflect repricing opportunities present in adjustable rate securities, nor do they reflect expected shorter maturities based upon early prepayment of principal. Weighted yields are based on the level-yield method taking into account premium amortization and discount accretion. Weighted yields on tax-exempt investment securities exclude the federal income tax benefit.

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The cost of each investment sold is determined by specific identification. Gain or loss on sale of investments consists of the following:

(Dollars in thousands)	Three Months ended June 30,		Six Months ended June 30,	
	2012	2011	2012	2011
Gross proceeds	\$	4,074		8,208
Less amortized cost		(4,665)		(8,675)
Net loss on sale of investments	\$	(591)		(467)
Gross gain on sale of investments	\$	39		223
Gross loss on sale of investments		(630)		(690)
Net loss on sale of investments	\$	(591)		(467)

Investments with an unrealized loss position are summarized as follows:

(Dollars in thousands)	Less than 12 Months		June 30, 2012 12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and local governments	\$ 77,764	(667)				