GLACIER BANCORP INC
Form 10-Q
November 08, 2013

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

FORM 10-Q

ý Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013

¨ 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 (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. 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	¨	Smaller reporting Company	¨

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
The number of shares of Registrant’s common stock outstanding on October 22, 2013 was 74,321,966. No preferred shares are issued or outstanding.

TABLE OF CONTENTS

	Page
Part I. Financial Information	
Item 1 – Financial Statements	
Unaudited Condensed Consolidated Statements of Financial Condition – September 30, 2013 and December 31, 2012	3
Unaudited Condensed Consolidated Statements of Operations – Three and Nine Months ended September 30, 2013 and 2012	4
Unaudited Condensed Consolidated Statements of Comprehensive Income – Three and Nine Months ended September 30, 2013 and 2012	5
Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity – Nine Months ended September 30, 2013 and 2012	6
Unaudited Condensed Consolidated Statements of Cash Flows – Nine Months ended September 30, 2013 and 2012	7
Notes to Unaudited Condensed Consolidated Financial Statements	9
Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3 – Quantitative and Qualitative Disclosure about Market Risk	60
Item 4 – Controls and Procedures	60
Part II. Other Information	60
Item 1 – Legal Proceedings	60
Item 1A – Risk Factors	60
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds	60
Item 3 – Defaults upon Senior Securities	60
Item 4 – Mine Safety Disclosures	61
Item 5 – Other Information	61
Item 6 – Exhibits	61
Signatures	62

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

(Dollars in thousands, except per share data)	September 30, 2013	December 31, 2012
Assets		
Cash on hand and in banks	$ 130,285	123,270
Interest bearing cash deposits and federal funds sold	124,399	63,770
Cash and cash equivalents	254,684	187,040
Investment securities, available-for-sale	3,318,953	3,683,005
Loans held for sale	61,505	145,501
Loans receivable	4,001,099	3,397,425
Allowance for loan and lease losses	(130,765)	(130,854)
Loans receivable, net	3,870,334	3,266,571
Premises and equipment, net	168,633	158,989
Other real estate owned	36,531	45,115
Accrued interest receivable	44,261	37,770
Deferred tax asset	47,957	20,394
Core deposit intangible, net	10,228	6,174
Goodwill	129,706	106,100
Non-marketable equity securities	52,192	48,812
Other assets	52,946	41,969
Total assets	$ 8,047,930	7,747,440
Liabilities		
Non-interest bearing deposits	$ 1,397,401	1,191,933
Interest bearing deposits	4,215,479	4,172,528
Securities sold under agreements to repurchase	314,313	289,508
Federal Home Loan Bank advances	967,382	997,013
Other borrowed funds	8,466	10,032
Subordinated debentures	125,526	125,418
Accrued interest payable	3,568	4,675
Other liabilities	67,988	55,384
Total liabilities	7,100,123	6,846,491
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	743	719
Paid-in capital	689,751	641,737
Retained earnings - substantially restricted	247,330	210,531
Accumulated other comprehensive income	9,983	47,962
Total stockholders' equity	947,807	900,949
Total liabilities and stockholders' equity	$ 8,047,930	7,747,440
Number of common stock shares issued and outstanding	74,307,951	71,937,222

See accompanying notes to unaudited condensed consolidated financial statements.

3

Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Operations

(Dollars in thousands, except per share data)	Three Months ended September 30, 2013	Three Months ended September 30, 2012	Nine Months ended September 30, 2013	Nine Months ended September 30, 2012
Interest Income				
Residential real estate loans	$ 7,320	7,740	21,606	23,019
Commercial loans	34,291	30,293	92,788	91,764
Consumer and other loans	8,447	8,826	24,220	26,809
Investment securities	19,473	15,156	51,023	52,499
Total interest income	69,531	62,015	189,637	194,091
Interest Expense				
Deposits	3,398	4,485	10,584	14,048
Securities sold under agreements to repurchase	209	395	646	997
Federal Home Loan Bank advances	2,730	3,116	8,029	9,715
Federal funds purchased and other borrowed funds	54	53	160	176
Subordinated debentures	795	858	2,410	2,613
Total interest expense	7,186	8,907	21,829	27,549
Net Interest Income	62,345	53,108	167,808	166,542
Provision for loan losses	1,907	2,700	5,085	19,250
Net interest income after provision for loan losses	60,438	50,408	162,723	147,292
Non-Interest Income				
Service charges and other fees	13,711	11,939	36,115	33,722
Miscellaneous loan fees and charges	1,408	1,080	3,650	3,139
Gain on sale of loans	7,021	8,728	23,582	23,063
Loss on sale of investments	(403)	—	(299)	—
Other income	2,136	2,227	6,997	6,179
Total non-interest income	23,873	23,974	70,045	66,103
Non-Interest Expense				
Compensation and employee benefits	27,469	24,046	76,963	71,290
Occupancy and equipment	6,421	6,001	18,152	17,794
Advertising and promotions	1,897	1,820	5,066	4,935
Outsourced data processing	1,232	801	2,870	2,435
Other real estate owned	1,049	6,373	4,901	15,394
Federal Deposit Insurance Corporation premiums	1,331	1,767	3,789	4,779
Core deposit intangibles amortization	693	532	1,684	1,619
Other expense	10,276	8,838	28,858	27,167
Total non-interest expense	50,368	50,178	142,283	145,413
Income Before Income Taxes	33,943	24,204	90,485	67,982
Federal and state income tax expense	8,315	4,760	21,387	13,224
Net Income	$ 25,628	19,444	69,098	54,758
Basic earnings per share	$ 0.35	0.27	0.95	0.76
Diluted earnings per share	$ 0.35	0.27	0.95	0.76
Dividends declared per share	$ 0.15	0.13	0.44	0.39
Average outstanding shares - basic	73,945,523	71,933,141	72,804,321	71,925,664
Average outstanding shares - diluted	74,021,871	71,973,985	72,869,475	71,925,761

See accompanying notes to unaudited condensed consolidated financial statements.

4

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

(Dollars in thousands)	Three Months ended September 30, 2013	Three Months ended September 30, 2012	Nine Months ended September 30, 2013	Nine Months ended September 30, 2012
Net Income	$ 25,628	19,444	69,098	54,758
Other Comprehensive Income, Net of Tax				
Unrealized (losses) gains on available-for-sale securities	(21,600)	8,733	(77,285)	31,965
Reclassification adjustment for losses included in net income	403	—	299	—
Net unrealized (losses) gains on securities	(21,197)	8,733	(76,986)	31,965
Tax effect	8,246	(3,398)	29,948	(12,435)
Net of tax amount	(12,951)	5,335	(47,038)	19,530
Unrealized (losses) gains on derivatives used for cash flow hedges	(735)	(2,507)	14,827	(8,446)
Tax effect	287	975	(5,768)	3,285
Net of tax amount	(448)	(1,532)	9,059	(5,161)
Total other comprehensive (loss) income, net of tax	(13,399)	3,803	(37,979)	14,369
Total Comprehensive Income	$ 12,229	23,247	31,119	69,127

See accompanying notes to unaudited condensed consolidated financial statements.

Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Changes in Stockholders’ Equity
Nine Months ended September 30, 2013 and 2012

(Dollars in thousands, except per share data)	Common Stock		Paid-in Capital	Retained Earnings Substantially Restricted	Accumulated Other Compre-hensive Income	Total
	Shares	Amount				
Balance at December 31, 2011	71,915,073	$719	642,882	173,139	33,487	850,227
Comprehensive income	—	—	—	54,758	14,369	69,127
Cash dividends declared ($0.39 per share)	—	—	—	(28,052)	—	(28,052)
Stock issuances under stock incentive plans	22,149	—	323	—	—	323
Stock-based compensation and related taxes	—	—	(1,468)	—	—	(1,468)
Balance at September 30, 2012	71,937,222	$719	641,737	199,845	47,856	890,157
Balance at December 31, 2012	71,937,222	$719	641,737	210,531	47,962	900,949
Comprehensive income (loss)	—	—	—	69,098	(37,979)	31,119
Cash dividends declared ($0.44 per share)	—	—	—	(32,299)	—	(32,299)
Stock issuances under stock incentive plans	227,597	2	3,500	—	—	3,502
Stock issued in connection with acquisitions	2,143,132	22	45,012	—	—	45,034
Stock-based compensation and related taxes	—	—	(498)	—	—	(498)
Balance at September 30, 2013	74,307,951	$743	689,751	247,330	9,983	947,807

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Nine Months ended September 30, 2013	September 30, 2012
Operating Activities		
Net income	$ 69,098	54,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,085	19,250
Net amortization of investment securities premiums and discounts	55,043	48,712
Federal Home Loan Bank stock dividends	—	(5)
Mortgage loans held for sale originated or acquired	(760,860)	(844,155)
Proceeds from sales of mortgage loans held for sale	904,066	872,659
Gain on sale of loans	(23,582)	(23,063)
Loss on sale of investments	299	—
Stock-based compensation expense, net of tax benefits	800	255
Excess tax deficiencies from stock-based compensation	219	8
Depreciation of premises and equipment	7,408	7,384
Loss on sale of other real estate owned and writedown, net	1,276	11,671
Amortization of core deposit intangibles	1,684	1,619
Net increase in accrued interest receivable	(2,628)	(4,398)
Net decrease (increase) in other assets	3,459	(3,649)
Net decrease in accrued interest payable	(1,290)	(1,172)
Net increase in other liabilities	12,526	13,082
Net cash provided by operating activities	272,603	152,956
Investing Activities		
Proceeds from sales, maturities and prepayments of investment securities, available-for-sale	1,676,928	1,397,533
Purchases of investment securities, available-for-sale	(1,321,504)	(1,873,893)
Principal collected on loans	854,553	706,240
Loans originated or acquired	(1,121,384)	(716,729)
Net addition of premises and equipment and other real estate owned	(6,861)	(7,896)
Proceeds from sale of other real estate owned	18,131	28,483
Net sale (purchase) of non-marketable equity securities	583	(664)
Net cash received from acquisitions	26,155	—
Net cash provided by (used in) investment activities	126,601	(466,926)
Financing Activities		
Net (decrease) increase in deposits	(301,759)	381,884
Net increase in securities sold under agreements to repurchase	24,805	156,193
Net decrease in Federal Home Loan Bank advances	(35,098)	(152,025)
Net (decrease) increase in federal funds purchased and other borrowed funds	(1,458)	264
Cash dividends paid	(21,153)	(28,052)
Excess tax deficiencies from stock-based compensation	(219)	(8)
Proceeds from stock options exercised	3,322	81
Net cash (used in) provided by financing activities	(331,560)	358,337
Net increase in cash and cash equivalents	67,644	44,367
Cash and cash equivalents at beginning of period	187,040	128,032

Cash and cash equivalents at end of period	$ 254,684	172,399

See accompanying notes to unaudited condensed consolidated financial statements.

Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows (Continued)

(Dollars in thousands)	Nine Months ended September 30, 2013	September 30, 2012
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$ 23,120	28,721
Cash paid during the period for income taxes	17,283	18,081
Supplemental Disclosure of Non-Cash Investing Activities		
Sale and refinancing of other real estate owned	$ 3,549	1,578
Transfer of loans to other real estate owned	13,091	21,029
Acquisitions		
Fair value of common stock shares issued	45,033	—
Cash consideration for outstanding shares	24,858	—
Fair value of assets acquired	630,569	—
Liabilities assumed	560,678	—

See accompanying notes to unaudited condensed consolidated financial statements.

Glacier Bancorp, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

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

General

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the Company's financial condition as of September 30, 2013, the results of operations and comprehensive income for the three and nine month periods ended September 30, 2013 and 2012, and changes in stockholders' equity and cash flows for the nine month periods ended September 30, 2013 and 2012. The condensed consolidated statement of financial condition of the Company as of December 31, 2012 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, 2012. Operating results for the nine months ended September 30, 2013 are not necessarily indicative of the results anticipated for the year ending December 31, 2013.

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 the determination of the allowance for loan and lease losses ("ALLL" or "allowance") and the valuations related to investments and real estate acquired in connection with foreclosures or in satisfaction of loans. 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.

Principles of Consolidation

The consolidated financial statements of the Company include the parent holding company and the Bank. The Bank consists of thirteen bank divisions, a treasury division and an information technology division. 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.

On May 31, 2013, the Company completed its acquisition of Wheatland Bankshares, Inc. (“Wheatland”) and its wholly-owned subsidiary, First State Bank, a community bank based in Wheatland, Wyoming. On July 31, 2013, the Company completed its acquisition of North Cascades Bancshares, Inc. (“NCBI”) and its wholly-owned subsidiary, North Cascades National Bank, a community bank based in Chelan, Washington. Both transactions were accounted for using the acquisition method, and their results of operations have been included in the Company’s consolidated financial statements as of the acquisition dates.

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

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

Variable Interest Entities

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

The following table summarizes the carrying amounts of the VIE's assets and liabilities included in the Company's consolidated financial statements at September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
(Dollars in thousands)	CDE (NMTC)	LIHTC	CDE (NMTC)	LIHTC
Assets				
Loans receivable	$ 35,956	—	35,480	—
Premises and equipment, net	—	13,641	—	16,066
Accrued interest receivable	113	—	117	—
Other assets	903	153	1,114	143
Total assets	$ 36,972	13,794	36,711	16,209
Liabilities				
Other borrowed funds	$ 4,555	1,723	4,555	3,639
Accrued interest payable	4	5	4	6
Other liabilities	92	203	182	136
Total liabilities	$ 4,651	1,931	4,741	3,781

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

Loans Receivable

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

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

Loans that are thirty days or more past due based on payments received and applied to the loan are considered delinquent. Loans are designated non-accrual and the accrual of interest is discontinued when the collection of the contractual principal or interest is unlikely. A loan is typically placed on non-accrual when principal or interest is due

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

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

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

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 of certain items 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 international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in experience, ability, and depth of lending management and other relevant staff;
- Changes in the volume and severity of past due and nonaccrual loans;
- Changes in the quality of the Company's loan review system;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company's existing portfolio.

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

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

Impact of Recent Authoritative Accounting Guidance

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

In 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 ("ASU") No. 2011-12, Comprehensive Income (Topic 220) deferred 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 were effective retrospectively during interim and annual periods beginning after December 15, 2011. ASU No. 2013-2, Comprehensive Income (Topic 220) reversed the deferment of ASU 2011-12 and will be effective prospectively for reporting periods beginning after December 15, 2012 and early adoption is permitted. The Company early adopted ASU No. 2013-2 as of December 31, 2012. The Company has evaluated the impact of the adoption of these amendments and determined there was not a material effect on the Company's financial position or results of operations.

Note 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.

	September 30, 2013				
	Weighted	Amortized	Gross Unrealized		Fair
(Dollars in thousands)	Yield	Cost	Gains	Losses	Value
U.S. government sponsored enterprises					
Maturing after one year through five years	2.29 %	$ 11,278	240	—	11,518
Maturing after five years through ten years	1.82 %	38	—	—	38
	2.29 %	11,316	240	—	11,556
State and local governments					
Maturing within one year	2.18 %	6,059	52	—	6,111
Maturing after one year through five years	2.10 %	162,569	3,096	(431)	165,234
Maturing after five years through ten years	3.17 %	57,892	1,122	(832)	58,182
Maturing after ten years	4.46 %	1,104,890	28,571	(21,604)	1,111,857
	4.10 %	1,331,410	32,841	(22,867)	1,341,384
Corporate bonds					
Maturing within one year	2.10 %	73,064	736	—	73,800
Maturing after one year through five years	2.10 %	358,034	2,890	(2,852)	358,072
Maturing after five years through ten years	2.22 %	11,058	—	(85)	10,973
	2.10 %	442,156	3,626	(2,937)	442,845
Residential mortgage-backed securities	2.44 %	1,515,728	15,357	(7,917)	1,523,168
Total investment securities	3.06 %	$ 3,300,610	52,064	(33,721)	3,318,953

	December 31, 2012				
	Weighted	Amortized	Gross Unrealized		Fair
(Dollars in thousands)	Yield	Cost	Gains	Losses	Value
U.S. government and federal agency					
Maturing within one year	1.62 %	$ 201	1	—	202
U.S. government sponsored enterprises					
Maturing after one year through five years	2.30 %	17,064	371	—	17,435
Maturing after five years through ten years	2.03 %	44	1	—	45
	2.29 %	17,108	372	—	17,480
State and local governments					
Maturing within one year	2.01 %	4,288	28	(2)	4,314
Maturing after one year through five years	2.11 %	149,497	4,142	(142)	153,497
Maturing after five years through ten years	2.95 %	38,346	1,102	(99)	39,349
Maturing after ten years	4.70 %	935,897	82,823	(1,362)	1,017,358
	4.29 %	1,128,028	88,095	(1,605)	1,214,518
Corporate bonds					
Maturing within one year	1.73 %	18,412	51	—	18,463
Maturing after one year through five years	2.22 %	250,027	4,018	(238)	253,807
Maturing after five years through ten years	2.23 %	16,144	381	—	16,525
	2.19 %	284,583	4,450	(238)	288,795
Collateralized debt obligations					
Maturing after ten years	8.03 %	1,708	—	—	1,708
Residential mortgage-backed securities	1.95 %	2,156,049	8,860	(4,607)	2,160,302
Total investment securities	2.71 %	$ 3,587,677	101,778	(6,450)	3,683,005

Included in the residential mortgage-backed securities are $3,214,000 and $46,733,000 as of September 30, 2013 and December 31, 2012, 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 average yields are based on the interest method taking into account premium amortization, discount accretion and mortgage-backed securities’ prepayment provisions. Weighted average yields on tax-exempt investment securities exclude the federal income tax benefit.

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 September 30, 2013	Three Months ended September 30, 2012	Nine Months ended September 30, 2013	Nine Months ended September 30, 2012
Gross proceeds	$ 102,483	—	181,971	—
Less amortized cost	(102,886)	—	(182,270)	—
Net loss on sale of investments	$ (403)	—	(299)	—
Gross gain on sale of investments	$ 3,467	—	3,723	—
Gross loss on sale of investments	(3,870)	—	(4,022)	—
Net loss on sale of investments	$ (403)	—	(299)	—

Investments with an unrealized loss position are summarized as follows:

	September 30, 2013					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and local governments	$405,834	(21,121)	22,373	(1,746)	428,207	(22,867)
Corporate bonds	189,130	(2,937)	—	—	189,130	(2,937)
Residential mortgage-backed securities	446,642	(7,917)	—	—	446,642	(7,917)
Total temporarily impaired securities	$1,041,606	(31,975)	22,373	(1,746)	1,063,979	(33,721)

	December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and local governments	$102,896	(1,531)	4,533	(74)	107,429	(1,605)
Corporate bonds	41,856	(238)	—	—	41,856	(238)
Residential mortgage-backed securities	955,235	(4,041)	62,905	(566)	1,018,140	(4,607)
Total temporarily impaired securities	$1,099,987	(5,810)	67,438	(640)	1,167,425	(6,450)

With respect to the Company’s review of its securities in an unrealized loss position at September 30, 2013, management determined that it did not intend to sell and there was no expected requirement to sell any of its temporarily impaired securities. Based on an analysis of its impaired securities as of September 30, 2013 and December 31, 2012, the Company determined that none of such securities had other-than-temporary impairment.

Note 3. Loans Receivable, Net

The following schedules summarize the activity in the ALLL on a portfolio class basis:

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

	Three Months ended September 30, 2012					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Balance at beginning of period	$ 137,459	18,139	79,098	20,570	10,904	8,748
Provision for loan losses	2,700	209	(1,210)	2,859	(555)	1,397
Charge-offs	(5,052)	(1,172)	(586)	(1,441)	(1,044)	(809)
Recoveries	1,553	73	453	241	679	107
Balance at end of period	$ 136,660	17,249	77,755	22,229	9,984	9,443

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

	Nine Months ended September 30, 2012					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Balance at beginning of period	$ 137,516	17,227	76,920	20,833	13,616	8,920
Provision for loan losses	19,250	2,294	11,800	4,163	(1,025)	2,018
Charge-offs	(24,789)	(2,492)	(13,120)	(3,797)	(3,402)	(1,978)
Recoveries	4,683	220	2,155	1,030	795	483
Balance at end of period	$ 136,660	17,249	77,755	22,229	9,984	9,443

The following schedules disclose the ALLL and loans receivable on a portfolio class basis:

	September 30, 2013					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Individually evaluated for impairment	$ 12,728	1,088	6,662	3,810	109	1,059
Collectively evaluated for impairment	118,037	14,662	66,736	20,011	9,382	7,246
Total allowance for loan and lease losses	$ 130,765	15,750	73,398	23,821	9,491	8,305
Loans receivable						
Individually evaluated for impairment	$ 206,918	27,104	125,566	38,390	10,091	5,767
Collectively evaluated for impairment	3,794,181	556,713	1,868,492	795,839	363,421	209,716
Total loans receivable	$ 4,001,099	583,817	1,994,058	834,229	373,512	215,483

	December 31, 2012					
(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	$ 15,534	1,680	7,716	3,859	870	1,409
Collectively evaluated for impairment	115,320	13,802	66,682	17,708	9,789	7,339
Total allowance for loan and lease losses	$ 130,854	15,482	74,398	21,567	10,659	8,748
Loans receivable						
Individually evaluated for impairment	$ 201,735	25,862	125,282	33,593	11,074	5,924
Collectively evaluated for impairment	3,195,690	490,605	1,530,226	589,804	392,851	192,204
Total loans receivable	$ 3,397,425	516,467	1,655,508	623,397	403,925	198,128

Substantially all of the Company’s loan receivables are with customers in the Company’s geographic market areas. Although the Company has a diversified loan portfolio, a substantial portion of its customers’ ability to honor their obligations is dependent upon the economic performance in the Company’s market areas. Net deferred fees, costs, premiums, and discounts of $10,870,000 and $1,379,000 were included in the loans receivable balance at September 30, 2013 and December 31, 2012, respectively.

The following schedules disclose the impaired loans by portfolio class basis:

	At or for the Three or Nine Months ended September 30, 2013					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$62,614	7,887	28,194	22,368	673	3,492
Unpaid principal balance	64,969	8,032	29,463	22,986	717	3,771
Specific valuation allowance	12,728	1,088	6,662	3,810	109	1,059
Average balance - three months	59,817	7,431	26,525	21,780	495	3,586
Average balance - nine months	59,402	7,237	26,653	21,321	737	3,454
Loans without a specific valuation allowance						
Recorded balance	$144,304	19,217	97,372	16,022	9,418	2,275
Unpaid principal balance	174,258	20,681	120,914	19,233	11,026	2,404
Average balance - three months	139,928	18,481	95,175	15,768	8,766	1,738
Average balance - nine months	139,368	18,420	95,857	14,011	9,017	2,063
Totals						
Recorded balance	$206,918	27,104	125,566	38,390	10,091	5,767
Unpaid principal balance	239,227	28,713	150,377	42,219	11,743	6,175
Specific valuation allowance	12,728	1,088	6,662	3,810	109	1,059
Average balance - three months	199,745	25,912	121,700	37,548	9,261	5,324
Average balance - nine months	198,770	25,657	122,510	35,332	9,754	5,517

	At or for the Year ended December 31, 2012					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$62,759	7,334	29,595	21,205	1,354	3,271
Unpaid principal balance	70,261	7,459	36,887	21,278	1,362	3,275
Specific valuation allowance	15,534	1,680	7,716	3,859	870	1,409
Average balance	76,656	12,797	36,164	22,665	1,390	3,640
Loans without a specific valuation allowance						
Recorded balance	$138,976	18,528	95,687	12,388	9,720	2,653
Unpaid principal balance	149,412	19,613	102,798	14,318	9,965	2,718
Average balance	162,505	16,034	111,554	19,733	11,993	3,191
Totals						
Recorded balance	$201,735	25,862	125,282	33,593	11,074	5,924
Unpaid principal balance	219,673	27,072	139,685	35,596	11,327	5,993
Specific valuation allowance	15,534	1,680	7,716	3,859	870	1,409
Average balance	239,161	28,831	147,718	42,398	13,383	6,831

Interest income recognized on impaired loans for the periods ended September 30, 2013 and December 31, 2012 was not significant.

The following is a loans receivable aging analysis on a portfolio class basis:

	September 30, 2013					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$ 21,294	516	11,829	5,854	1,828	1,267
Accruing loans 60-89 days past due	5,107	824	2,419	683	797	384
Accruing loans 90 days or more past due	174	—	109	35	28	2
Non-accrual loans	88,293	12,604	53,536	11,591	8,953	1,609
Total past due and non-accrual loans	114,868	13,944	67,893	18,163	11,606	3,262
Current loans receivable	3,886,231	569,873	1,926,165	816,066	361,906	212,221
Total loans receivable	$ 4,001,099	583,817	1,994,058	834,229	373,512	215,483

	December 31, 2012					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$ 17,454	3,897	7,424	2,020	2,872	1,241
Accruing loans 60-89 days past due	9,643	1,870	3,745	645	2,980	403
Accruing loans 90 days or more past due	1,479	451	594	197	188	49
Non-accrual loans	96,933	14,237	55,687	13,200	11,241	2,568
Total past due and non-accrual loans	125,509	20,455	67,450	16,062	17,281	4,261
Current loans receivable	3,271,916	496,012	1,588,058	607,335	386,644	193,867
Total loans receivable	$ 3,397,425	516,467	1,655,508	623,397	403,925	198,128

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

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

(Dollars in thousands)	Three Months ended September 30, 2012					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	46	1	21	19	2	3
Pre-modification recorded balance	$ 38,125	280	20,866	16,601	219	159
Post-modification recorded balance	$ 35,475	281	18,242	16,571	222	159
Troubled debt restructurings that subsequently defaulted						
Number of loans	3	2	—	—	1	—
Recorded balance	$ 1,792	1,622	—	—	170	—

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

(Dollars in thousands)	Nine Months ended September 30, 2012					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Troubled debt restructurings						
Number of loans	149	9	61	60	9	10
Pre-modification recorded balance	$ 66,580	1,981	37,712	25,033	1,314	540
Post-modification recorded balance	$ 61,944	1,982	33,080	25,025	1,317	540
Troubled debt restructurings that subsequently defaulted						
Number of loans	17	2	10	3	1	1
Recorded balance	$ 10,204	1,622	7,553	801	170	58

For the nine months ended September 30, 2013 and 2012, the majority of TDRs occurring in most loan classes was a result of an extension of the maturity date which aggregated 59 percent and 56 percent, respectively, of total TDRs. For commercial real estate, the class with the largest dollar amount of TDRs, approximately 63 percent and 44 percent, respectively, was a result of an extension of the maturity date and 25 percent and 24 percent, respectively, was due to a combination of an interest rate reduction, extension of the maturity date, or reduction in the face amount.

In addition to the TDRs that occurred during the period provided in the preceding table, the Company had TDRs with pre-modification loan balances of $14,695,000 and $30,261,000 for the nine months ended September 30, 2013 and 2012, respectively, for which other real estate owned (“OREO”) was received in full or partial satisfaction of the loans. The majority of such TDRs for both periods was in commercial real estate.

20

Note 4. Goodwill

The Company performed its annual goodwill impairment test during the third quarter of 2013 and determined the fair value of the aggregated reporting units exceeded the carrying value, such that the Company's goodwill was not considered impaired. Changes in the economic environment, operations of the aggregated reporting units, or other factors could result in the decline in the fair value of the aggregated reporting units which could result in a goodwill impairment in the future. For additional information on goodwill related to acquisitions, see Note 9.

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

(Dollars in thousands)	Three Months ended		Nine Months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net carrying value at beginning of period	$ 119,509	106,100	106,100	106,100
Acquisitions	10,197	—	23,606	—
Net carrying value at end of period	$ 129,706	106,100	129,706	106,100

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

(Dollars in thousands)	September 30, 2013	December 31, 2012
Gross carrying value	$ 169,865	146,259
Accumulated impairment charge	(40,159)	(40,159)
Net carrying value	$ 129,706	106,100

Note 5. Derivatives and Hedging Activities

As of September 30, 2013, the Company's interest rate swap derivative financial instruments were designated as cash flow hedges and are summarized as follows:

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

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

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

The following table summarizes the fair value of the Company's interest rate swap derivative financial instruments:

(Dollars in thousands)	Balance Sheet Location	Fair Value	
		September 30, 2013	December 31, 2012
Interest rate swaps	Other liabilities	$ 2,004	16,832

21

Pursuant to the interest rate swap agreements, the Company pledged collateral to the counterparties in the form of investment securities totaling $7,856,000 at September 30, 2013. There was $0 collateral pledged from the counterparties to the Company as of September 30, 2013. There is the possibility that the Company may need to pledge additional collateral in the future if there were further declines in the fair value of the interest rate swap derivative financial instruments versus the collateral pledged.

Note 6. Accumulated Other Comprehensive Income

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

(Dollars in thousands)	September 30, 2013	December 31, 2012
Unrealized gains on available-for-sale securities	$ 18,343	95,328
Tax effect	(7,136)	(37,083)
Net of tax amount	11,207	58,245
Unrealized losses on derivatives used for cash flow hedges	(2,004)	(16,832)
Tax effect	780	6,549
Net of tax amount	(1,224)	(10,283)
Total accumulated other comprehensive income	$ 9,983	47,962

Note 7. Earnings Per Share

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

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

	Three Months ended		Nine Months ended	
(Dollars in thousands, except per share data)	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income available to common stockholders, basic and diluted	$ 25,628	19,444	69,098	54,758
Average outstanding shares - basic	73,945,523	71,933,141	72,804,321	71,925,664
Add: dilutive stock options and awards	76,348	40,844	65,154	97
Average outstanding shares - diluted	74,021,871	71,973,985	72,869,475	71,925,761
Basic earnings per share	$ 0.35	0.27	0.95	0.76
Diluted earnings per share	$ 0.35	0.27	0.95	0.76

There were 49,932 and 903,945 options excluded from the diluted average outstanding share calculation for the nine months ended September 30, 2013 and 2012, respectively, due to the option exercise price exceeding the market price of the Company's common stock.

Note 8. Fair Value of Assets and Liabilities

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

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

Transfers in and out of Level 1 (quoted prices in active markets), Level 2 (significant other observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date. There were no transfers between fair value hierarchy levels during the nine month periods ended September 30, 2013 and 2012.

Recurring Measurements
The following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended September 30, 2013.

Investment securities: 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 investment securities are the responsibility of the Company’s corporate accounting department. The Company contracts with independent third party pricing vendors to generate fair value estimates and the Company reviews the vendors’ inputs for fair value estimates and the recommended assignments of levels within the fair value hierarchy on a quarterly basis. 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. The Company makes independent inquiries of other knowledgeable parties in testing the reliability of the inputs, including consideration for illiquidity, credit risk, and cash flow estimates. In assessing credit risk, the Company reviews payment performance, collateral adequacy, credit rating histories, and issuers’ financial statements with follow-up discussion with issuers. For those markets determined to be inactive, the valuation techniques used are models for which management verifies that discount rates are appropriately adjusted to reflect illiquidity and credit risk. The Company also independently obtains cash flow estimates that are stressed at levels that exceed those used by the independent third party pricing vendors.

Interest rate swap derivative financial instruments: fair values for interest rate swap derivative financial instruments are based upon the estimated amounts to settle the contracts considering current interest rates and are calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. The inputs used to determine fair value include the 3 month LIBOR forward curve to estimate variable rate cash inflows and the spot LIBOR curve 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 party.

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

(Dollars in thousands)	Fair Value September 30, 2013	Fair Value Measurements At the End of the Reporting Period Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities, available-for-sale				
U.S. government sponsored enterprises	$ 11,556	—	11,556	—
State and local governments	1,341,384	—	1,341,384	—
Corporate bonds	442,845	—	442,845	—
Residential mortgage-backed securities	1,523,168	—	1,523,168	—
Total assets measured at fair value on a recurring basis	$ 3,318,953	—	3,318,953	—
Interest rate swaps	$ 2,004	—	2,004	—
Total liabilities measured at fair value on a recurring basis	$ 2,004	—	2,004	—

(Dollars in thousands)	Fair Value December 31, 2012	Fair Value Measurements At the End of the Reporting Period Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities, available-for-sale				
U.S. government and federal agency	$ 202	—	202	—
U.S. government sponsored enterprises	17,480	—	17,480	—
State and local governments	1,214,518	—	1,214,518	—
Corporate bonds	288,795	—	288,795	—
Collateralized debt obligations	1,708	—	1,708	—
Residential mortgage-backed securities	2,160,302	—	2,160,302	—
Total assets measured at fair value on a recurring basis	$ 3,683,005	—	3,683,005	—
Interest rate swaps	$ 16,832	—	16,832	—
Total liabilities measured at fair value on a recurring basis	$ 16,832	—	16,832	—

Non-recurring Measurements

The following is a description of the inputs and valuation methodologies used for assets recorded at fair value on a non-recurring basis, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended September 30, 2013.

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

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

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

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

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Fair Value September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 7,646	—	—	7,646
Collateral-dependent impaired loans, net of ALLL	19,066	—	—	19,066
Total assets measured at fair value on a non-recurring basis	$ 26,712	—	—	26,712

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Fair Value December 31, 2012	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	$ 13,983	—	—	13,983
Collateral-dependent impaired loans, net of ALLL	22,966	—	—	22,966
Total assets measured at fair value on a non-recurring basis	$ 36,949	—	—	36,949

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

(Dollars in thousands)	Fair Value September 30, 2013	Quantitative Information about Level 3 Fair Value Measurements		
		Valuation Technique	Unobservable Input	Range (Weighted Average) [1]
Other real estate owned	$ 6,828	Sales comparison approach	Selling costs	1.0% - 11.0% (7.0%)
			Adjustment to comparables	0.0% - 10.0% (0.0%)
	818	Combined approach	Selling costs	5.0% - 5.0% (5.0%)
			Adjustment to comparables	25.0% - 25.0% (25.0%)
	$ 7,646			
Collateral-dependent impaired loans, net of ALLL	$ 442	Cost approach	Selling costs	10.0% - 50.0% (19.2%)
	2,553	Income approach	Selling costs	8.0% - 8.0% (8.0%)
			Discount rate	8.3% - 8.3% (8.3%)
	13,700	Sales comparison approach	Selling costs	0.0% - 10.0% (8.0%)
			Discount rate	0.0% - 0.0% (0.0%)
			Adjustment to comparables	0.0% - 1.0% (0.0%)
	2,371	Combined approach	Selling costs	8.0% - 8.0% (8.0%)
			Adjustment to comparables	10.0% - 36.0% (22.5%)
	$ 19,066			

[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.

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

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

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

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

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

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

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Carrying Amount September 30, 2013	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	$ 254,684	254,684	—	—
Investment securities, available-for-sale	3,318,953	—	3,318,953	—
Loans held for sale	61,505	61,505	—	—
Loans receivable, net of ALLL	3,870,334	—	3,758,724	194,190
Accrued interest receivable	44,261	44,261	—	—
Non-marketable equity securities	52,192	—	52,192	—
Total financial assets	$ 7,601,929	360,450	7,129,869	194,190
Financial liabilities				

Deposits	$ 5,612,880	4,153,782	1,486,996	—
FHLB advances	967,382	—	986,292	—
Repurchase agreements and other borrowed funds	322,779	—	322,779	—
Subordinated debentures	125,526	—	72,554	—
Accrued interest payable	3,568	3,568	—	—
Interest rate swaps	2,004	—	2,004	—
Total financial liabilities	$ 7,034,139	4,157,350	2,870,625	—

27

(Dollars in thousands)	Carrying Amount December 31, 2012	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	$ 187,040	187,040	—	—
Investment securities, available-for-sale	3,683,005	—	3,683,005	—
Loans held for sale	145,501	145,501	—	—
Loans receivable, net of ALLL	3,266,571	—	3,184,987	186,201
Accrued interest receivable	37,770	37,770	—	—
Non-marketable equity securities	48,812	—	48,812	—
Total financial assets	$ 7,368,699	370,311	6,916,804	186,201
Financial liabilities				
Deposits	$ 5,364,461	3,585,126	1,789,134	—
FHLB advances	997,013	—	1,027,101	—
Repurchase agreements and other borrowed funds	299,540	—	299,540	—
Subordinated debentures	125,418	—	70,895	—
Accrued interest payable	4,675	4,675	—	—
Interest rate swaps	16,832	—	16,832	—
Total financial liabilities	$ 6,807,939	3,589,801	3,203,502	—

Note 9. Mergers and Acquisitions

On May 31, 2013, the Company acquired 100 percent of the outstanding common stock of Wheatland and its wholly-owned subsidiary, First State Bank, a community bank based in Wheatland, Wyoming. First State Bank provides community banking services to individuals and businesses from banking offices in Wheatland, Torrington and Guernsey, Wyoming. As a result of the acquisition, the Company has increased its presence in the State of Wyoming and will further diversify its loan, customer and deposit base with First State Bank’s strong commitment to agriculture. First State Bank operates as a division of the Bank under the name “First State Bank, division of Glacier Bank.” The Wheatland acquisition was valued at $39,315,000 and resulted in the Company issuing 1,455,256 shares of its common stock and $11,025,000 in cash in exchange for all of Wheatland’s outstanding common stock shares. The fair value of the Company’s common stock shares issued was determined on the basis of the closing market price of the Company’s common stock shares on the May 31, 2013 acquisition date.

On July 31, 2013, the Company acquired 100 percent of the outstanding common stock of NCBI and its wholly-owned subsidiary, North Cascades National Bank, a community bank based in Chelan, Washington. North Cascades National Bank provides community banking services to individuals and businesses in central Washington, with banking offices located in Chelan, Wenatchee, East Wenatchee, Omak, Brewster, Twisp, Okanogan, Grand Coulee and Waterville, Washington. The acquisition expands the Company’s market into central Washington and further diversifies the Company’s loan, customer and deposit base due to the region’s solid economic base of agriculture, fruit processing and tourism. North Cascades National Bank operates as a division of the Bank under the name “North Cascades Bank, division of Glacier Bank.” The NCBI acquisition was valued at $30,576,000 and resulted in the Company issuing 687,876 shares of its common stock and $13,833,000 in cash in exchange for all of NCBI's

outstanding common stock shares. The fair value of the Company's common stock shares issued was determined on the basis of the closing market price of the Company's common stock shares on the July 31, 2013 acquisition date.

The assets and liabilities of Wheatland and NCBI were recorded on the Company’s consolidated statements of financial condition at their estimated fair values as of the May 31, 2013 and July 31, 2013 acquisition dates, respectively, and their results of operations have been included in the Company’s consolidated statements of operations since those dates. The excess of the fair value of consideration transferred over total identifiable net assets was recorded as goodwill. The goodwill arising from the acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the Company, Wheatland and NCBI. None of the goodwill is deductible for income tax purposes as both acquisitions were accounted for as tax-free exchanges. The following table discloses the calculation of the fair value of consideration transferred, the total identifiable net assets acquired and the resulting goodwill relating to the Wheatland and NCBI acquisitions:

(Dollars in thousands)	Wheatland May 31, 2013	NCBI July 31, 2013	Total
Fair value of consideration transferred			
Fair value of Company shares issued, net of equity issuance costs	$ 28,290	16,743	45,033
Cash consideration for outstanding shares	11,025	13,833	24,858
Total fair value of consideration transferred	39,315	30,576	69,891
Recognized amounts of identifiable assets acquired and liabilities assumed			
Identifiable assets acquired			
Cash and cash equivalents	23,148	27,865	51,013
Investment securities, available-for-sale	75,643	48,058	123,701
Loans receivable	171,199	215,986	387,185
Core deposit intangible	2,079	3,660	5,739
Accrued income and other assets	15,063	24,262	39,325
Total identifiable assets acquired	287,132	319,831	606,963
Liabilities assumed			
Deposits	255,197	294,980	550,177
Federal Home Loan Bank advances and other borrowed funds	5,467	—	5,467
Accrued expenses and other liabilities	562	4,472	5,034
Total liabilities assumed	261,226	299,452	560,678
Total identifiable net assets	25,906	20,379	46,285
Goodwill recognized	$ 13,409	10,197	23,606

The fair value of the Wheatland and NCBI assets acquired includes loans with fair values of $171,199,000 and $215,986,000, respectively. The gross principal and contractual interest due under the Wheatland and NCBI contracts is $176,698,000 and $223,949,000, respectively, all of which is expected to be collectible.

The Company incurred $594,000 and $478,000, respectively, of Wheatland and NCBI third-party acquisition-related costs during the nine month period ended September 30, 2013. 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 Wheatland was approximately $4,605,000 and net income was approximately $1,338,000 from May 31, 2013 to September 30, 2013. Total income consisting of net interest income and non-interest income of the acquired operations of NCBI was approximately $2,662,000 and net income was approximately $510,000 from July 31, 2013 to September 30, 2013. The following unaudited pro forma summary presents consolidated information of the Company as if the Wheatland and NCBI acquisitions had occurred on January 1, 2012:

(Dollars in thousands)	Three Months ended		Nine Months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net interest income and non-interest income	$ 86,940	77,095	249,224	251,525
Net income	24,756	20,126	69,846	58,525

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, 2012 (the "2012 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, including as a result of a slow recovery in the housing and real estate markets in its geographic areas;
- increased loan delinquency rates;
- the risks presented by a slow economic recovery and the current sequestration, which could adversely affect credit quality, loan collateral values, other real estate owned values, investment values, liquidity and capital levels, dividends and loan originations;
- changes in market interest rates, which could adversely affect the Company's net interest income and profitability;
- legislative or regulatory changes that adversely affect the Company's business, ability to complete pending or prospective future acquisitions, limit certain sources of revenue, or increase cost of operations;
- costs or difficulties related to the completion and integration of acquisitions;
- the goodwill the Company has recorded in connection with acquisitions could become additionally impaired, which may have an adverse impact on earnings and capital;
- reduced demand for banking products and services;

- the risks presented by public stock market volatility, which could adversely affect the market price of the Company's common stock and the ability to raise additional capital in the future;
- competition from other financial services companies in the Company's markets;
- dependence on the CEO, the senior management team and the Presidents of its 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.

30

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 Acquisitions

On May 31, 2013, the Company completed the acquisition of Wheatland Bankshares, Inc. (“Wheatland”) and its wholly-owned subsidiary, First State Bank, which has community bank offices in Wheatland, Torrington, and Guernsey, Wyoming. First State Bank operates as a division of Glacier Bank (“Bank”) under the name “First State Bank, division of Glacier Bank.” Cash of $11.0 million and 1,455,256 shares of the Company's common stock were issued in the acquisition which resulted in $13.4 million of goodwill.

On July 31, 2013, the Company completed the acquisition of North Cascades Bancshares, Inc. (“NCBI”), and its subsidiary, North Cascades National Bank which has community bank offices in Brewster, Chelan, East Wenatchee, Grand Coulee, Okanogan, Omak, Twisp, Waterville, and Wenatchee, Washington. North Cascades National Bank operates as a division of the Bank under the name “North Cascades Bank, division of Glacier Bank.” Cash of $13.8 million and 687,876 shares of the Company’s common stock were issued in the acquisition which resulted in $10.2 million of goodwill.

As a result of the Wheatland and NCBI acquisitions, the Company incurred $335 thousand of legal and professional expenses in connection with the acquisitions in the current quarter and $1.1 million in the nine months ended September 30, 2013. The Company’s results of operations and financial condition include the acquisitions of Wheatland and NCBI from the acquisition dates. For additional information regarding the identifiable assets acquired and liabilities assumed, see Note 9 to the Consolidated Financial Statements in “Part I. Item 1. Financial Statements.”

Financial Condition Analysis

Assets

The following table summarizes the asset balances as of the dates indicated, and the amount of change from December 31, 2012 and September 30, 2012:

(Dollars in thousands)	September 30, 2013	December 31, 2012	September 30, 2012	$ Change from December 31, 2012	$ Change from September 30, 2012
Cash and cash equivalents	$ 254,684	187,040	172,399	67,644	82,285
Investment securities, available-for-sale	3,318,953	3,683,005	3,586,355	(364,052)	(267,402)
Loans receivable					
Residential real estate	583,817	516,467	528,177	67,350	55,640
Commercial	2,828,287	2,278,905	2,272,959	549,382	555,328
Consumer and other	588,995	602,053	606,958	(13,058)	(17,963)
Loans receivable	4,001,099	3,397,425	3,408,094	603,674	593,005
Allowance for loan and lease losses	(130,765)	(130,854)	(136,660)	89	5,895
Loans receivable, net	3,870,334	3,266,571	3,271,434	603,763	598,900
Other assets	603,959	610,824	602,017	(6,865)	1,942
Total assets	$ 8,047,930	7,747,440	7,632,205	300,490	415,725

Investment securities decreased $402 million, or 11 percent, during the current quarter and decreased $364 million, or 10 percent, from December 31, 2012 as the Company implemented a strategy to reduce the overall size of this portfolio. The Company continued to purchase investment securities during the current quarter, although at a much slower pace. With the growth in the loan portfolio it affords the Company the opportunity to retain higher yielding assets than what the Company could achieve with investment securities. At September 30, 2013, investment securities represented 41 percent of total assets, down from 48 percent at December 31, 2012 and 47 percent at September 30, 2012.

An encouraging trend over the last three quarters has been the organic loan growth. Excluding the loans receivable from acquisitions, the loan portfolio increased $111.7 million, or 3 percent, during the current quarter and increased $205.8 million, or 6 percent, from the prior year third quarter with increases in both the commercial real estate and commercial and industrial loan categories. Excluding the acquisitions, the largest dollar increase was in commercial loans, which increased $98.8 million, or 4 percent, from the prior quarter and increased $226.5 million, or 10 percent, from the prior year third quarter. Included in the $98.8 current quarter increase in commercial loans was an increase of $63.9 million of commercial real estate loans and $34.9 million increase in commercial and industrial loans. Excluding the acquisitions, residential real estate loans increased $22.8 million, or 4 percent, from the prior quarter and increased $13.3 million, or 3 percent, from the prior year third quarter. The decreases in consumer and other loans was primarily attributable to customers paying off home equity lines of credit as they refinanced their first mortgage.

Liabilities

The following table summarizes the liability balances as of the dates indicated, and the amount of change from December 31, 2012 and September 30, 2012:

(Dollars in thousands)	September 30, 2013	December 31, 2012	September 30, 2012	$ Change from December 31, 2012	$ Change from September 30, 2012
Non-interest bearing deposits	$ 1,397,401	1,191,933	1,180,066	205,468	217,335
Interest bearing deposits	4,215,479	4,172,528	4,023,031	42,951	192,448
Repurchase agreements	314,313	289,508	414,836	24,805	(100,523)
Federal Home Loan Bank advances	967,382	997,013	917,021	(29,631)	50,361
Other borrowed funds	8,466	10,032	10,152	(1,566)	(1,686)
Subordinated debentures	125,526	125,418	125,382	108	144
Other liabilities	71,556	60,059	71,560	11,497	(4)
Total liabilities	$ 7,100,123	6,846,491	6,742,048	253,632	358,075

Excluding the acquisitions, non-interest bearing deposits at September 30, 2013 increased $85.2 million, or 7 percent, during the current quarter and increased $111 million, or 9 percent, since September 30, 2012. Interest bearing deposits of $4.215 billion at September 30, 2013 included $328 million of wholesale deposits (i.e., brokered deposits classified as NOW, money market deposit and certificate accounts). Excluding the acquisitions, interest bearing deposits at September 30, 2013 decreased $125 million, or 3 percent, during the current quarter and included a decrease of $44 million in wholesale deposits. Excluding the acquisition, interest bearing deposits at September 30, 2013 decreased $252 million, or 6 percent, from September 30, 2012 primarily the result of a decrease of $417 million in wholesale deposits.

Securities sold under agreements to repurchase (“repurchase agreements”) of $314 million at September 30, 2013 decreased $100 million, or 24 percent, from the prior year third quarter and was primarily a result of a decrease of $107 million in wholesale repurchase agreements. Federal Home Loan Bank (“FHLB”) advances have remained relatively stable compared to the prior year end and the prior year third quarter and will fluctuate as necessary as the need for funding changes.

32

Stockholders' Equity

The following table summarizes the stockholders' equity balances as of the dates indicated, and the amount of change from December 31, 2012 and September 30, 2012:

(Dollars in thousands, except per share data)	September 30, 2013	December 31, 2012	September 30, 2012	$ Change from December 31, 2012	$ Change from September 30, 2012
Common equity	$ 937,824	852,987	842,301	84,837	95,523
Accumulated other comprehensive income	9,983	47,962	47,856	(37,979)	(37,873)
Total stockholders' equity	947,807	900,949	890,157	46,858	57,650
Goodwill and core deposit intangible, net	(139,934)	(112,274)	(112,765)	(27,660)	(27,169)
Tangible stockholders' equity	$ 807,873	788,675	777,392	19,198	30,481
Stockholders' equity to total assets	11.78 %	11.63 %	11.66 %		
Tangible stockholders' equity to total tangible assets	10.22 %	10.33 %	10.34 %		
Book value per common share	$ 12.76	12.52	12.37	0.24	0.39
Tangible book value per common share	$ 10.87	10.96	10.81	(0.09)	0.06
Market price per share at end of period	$ 24.68	14.71	15.59	9.97	9.09

Tangible stockholders' equity of $808 million increased $19.2 million, or 2 percent, from the prior year end as a result of Company stock issued in connection with the acquisitions and an increase in earnings retention which was offset by the decrease in accumulated other comprehensive income. Tangible book value per common share of $10.87 decreased $0.09 per share from the prior year end as a result of the increased Company stock issued in the acquisitions.

On September 26, 2013, the Company's Board of Directors declared a cash dividend of $0.15 per share, payable October 17, 2013 to shareholders of record on October 8, 2013. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations.

Operating Results for Three Months Ended September 30, 2013
Compared to June 30, 2013 and September 30, 2012

Performance Summary

(Dollars in thousands, except per share data)	Three Months ended		
	September 30, 2013	June 30, 2013	September 30, 2012
Net income	$ 25,628	22,702	19,444
Diluted earnings per share	$ 0.35	0.31	0.27
Return on average assets (annualized)	1.27 %	1.17 %	1.03 %
Return on average equity (annualized)	10.85 %	9.78 %	8.68 %

The Company reported net income of $25.6 million for the current quarter, an increase of $6.2 million, or 32 percent, from the $19.4 million of net income for the prior year third quarter. Diluted earnings per share for the current quarter was $0.35 per share, an increase of $0.08, or 30 percent, from the prior year third quarter diluted earnings per share of

$0.27.

Income Summary

The following tables summarize revenue for the periods indicated, including the amount and percentage change from June 30, 2013 and September 30, 2012:

(Dollars in thousands)	Three Months ended September 30, 2013	June 30, 2013	September 30, 2012
Net interest income			
Interest income	$69,531	62,151	62,015
Interest expense	7,186	7,185	8,907
Total net interest income	62,345	54,966	53,108
Non-interest income			
Service charges, loan fees, and other fees	15,119	12,971	13,019
Gain on sale of loans	7,021	7,472	8,728
(Loss) gain on sale of investments	(403)	241	—
Other income	2,136	2,538	2,227
Total non-interest income	23,873	23,222	23,974
	$86,218	78,188	77,082
Net interest margin (tax-equivalent)	3.56%	3.30%	3.24%

(Dollars in thousands)	$ Change from June 30, 2013	$ Change from September 30, 2012	% Change from June 30, 2013	% Change from September 30, 2012
Net interest income				
Interest income	$7,380	$7,516	12%	12%
Interest expense	1	(1,721)	—%	(19)%
Total net interest income	7,379	9,237	13%	17%
Non-interest income				
Service charges, loan fees, and other fees	2,148	2,100	17%	16%
Gain on sale of loans	(451)	(1,707)	(6)%	(20)%
(Loss) gain on sale of investments	(644)	(403)	(267)%	n/m
Other income	(402)	(91)	(16)%	(4)%
Total non-interest income	651	(101)	3%	—%
	$8,030	$9,136	10%	12%

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n/m - not measurable

Net Interest Income
The current quarter interest income of $69.5 million increased $7.4 million, or 12 percent, over the prior quarter primarily as a result of the increase in interest income on commercial loans and the increase in interest income on the investment portfolio. The $4.4 million, or 15 percent, increase in commercial loan interest income from the prior quarter was driven by an increased volume of commercial loans during the current quarter. The current quarter increase in interest income on the investment portfolio was primarily a result of a decrease in premium amortization (net of discount accretion) on the investment securities ("premium amortization"). The Company experienced a decrease in premium amortization for a third consecutive quarter, compared to significant increases experienced during the preceding seven quarters. Included in the current quarter's interest income was $15.2 million of premium amortization on investment securities compared to $18.4 million in the prior quarter. The current quarter decrease in premium amortization on investment securities was $3.2 million compared to a decrease of $3.0 million in premium amortization in the prior quarter.

The current quarter interest income of $69.5 million increased $7.5 million, or 12 percent, over the prior year third quarter and was also driven by the increase in interest income on the commercial loans and the increase in interest income on the investment portfolio. The current quarter interest income on commercial loans of $34.3 million increased $4.0 million, or 13 percent, over the prior year third quarter as a result of increased volume of commercial loans. The current quarter interest income on investment securities of $19.5 million increased $4.3 million, or 28 percent, over the prior year third quarter of which $4.3 million was attributable to the decrease in premium amortization.

The current quarter interest expense of $7.2 million was unchanged from the prior quarter and decreased $1.7 million, or 19 percent, from the prior year third quarter. The decrease in interest expense from the prior year third quarter was a result of decreases in borrowing and deposit interest rates. The cost of total funding (including non-interest bearing deposits) for the current quarter was 41 basis points compared to 43 basis points for the prior quarter and 54 basis points for the prior year third quarter.

The current quarter net interest margin as a percentage of earning assets, on a tax-equivalent basis, was 3.56 percent, an increase of 26 basis points from the prior quarter net interest margin of 3.30 percent. The increase in the net interest margin was driven by an increased yield on the investment securities and a shift in the earning assets from investment securities to the higher yielding loan portfolio. The current quarter increase in the investment securities yield was primarily attributable to a decrease in the premium amortization which was consistent with the prior quarter. Of the 33 basis points increase in yield on the investment securities during the current quarter, 28 basis points was due to the decrease in premium amortization. The premium amortization in the current quarter accounted for a 82 basis points reduction in the net interest margin compared to a 103 basis points reduction in the prior quarter and 111 basis points reduction in the net interest margin in the prior year third quarter.

Non-interest Income
Non-interest income for the current quarter totaled $23.9 million, an increase of $651 thousand over the prior quarter and a decrease of $101 thousand over the same quarter last year. Service charge fee income increased $2.1 million, or 17 percent, from the prior quarter and increased $2.1 million, or 16 percent, from the prior year third quarter which was driven by increases in deposit accounts and changes in internal deposit processing. Gain of $7.0 million on the sale of loans for the current quarter decreased $451 thousand, or 6 percent, from the prior quarter and decreased $1.7 million, or 20 percent, from the prior year third quarter. As expected, the Company experienced a slowdown in refinance activity as mortgage rates moved up significantly in the third quarter. The decrease in gain on sale of loans was more than offset by the decrease in premium amortization on investment securities, both of which were attributable to the continuing slowdown of refinance activity. Other income of $2.1 million for the current quarter decreased $402 thousand, or 16 percent, from the prior quarter primarily as a result of a decrease in income related to

other real estate owned (“OREO”). Included in other income was operating revenue of $92 thousand from OREO and gain of $341 thousand on the sales of OREO, which totaled $433 thousand for the current quarter compared to $715 thousand for the prior quarter and $531 thousand for the prior year third quarter.

Non-interest Expense

The following tables summarize non-interest expense for the periods indicated, including the amount and percentage change from June 30, 2013 and September 30, 2012:

(Dollars in thousands)	Three Months ended September 30, 2013	June 30, 2013	September 30, 2012
Compensation and employee benefits	$ 27,469	24,917	24,046
Occupancy and equipment	6,421	5,906	6,001
Advertising and promotions	1,897	1,621	1,820
Outsourced data processing	1,232	813	801
Other real estate owned	1,049	2,968	6,373
Federal Deposit Insurance Corporation premiums	1,331	1,154	1,767
Core deposit intangibles amortization	693	505	532
Other expense	10,276	10,597	8,838
Total non-interest expense	$ 50,368	48,481	50,178

(Dollars in thousands)	$ Change from June 30, 2013	$ Change from September 30, 2012	% Change from June 30, 2013	% Change from September 30, 2012
Compensation and employee benefits	$ 2,552	$ 3,423	10 %	14 %
Occupancy and equipment	515	420	9 %	7 %
Advertising and promotions	276	77	17 %	4 %
Outsourced data processing	419	431	52 %	54 %
Other real estate owned	(1,919)	(5,324)	(65)%	(84)%
Federal Deposit Insurance Corporation premiums	177	(436)	15 %	(25)%
Core deposit intangibles amortization	188	161	37 %	30 %
Other expense	(321)	1,438	(3)%	16 %
Total non-interest expense	$ 1,887	$ 190	4 %	— %

Non-interest expense of $50.4 million for the current quarter increased by $1.9 million, or 4 percent, from the prior quarter and increased by $190 thousand, or 38 basis points, from the prior year third quarter. Compensation and employee benefits increased by $2.6 million, or 10 percent, from the prior quarter and increased $3.4 million, or 14 percent, from the prior year third quarter primarily as a result of the acquisitions. Outsourced data processing expense increased $419 thousand, or 52 percent, from the prior quarter and increased $431 thousand, or 54 percent, from the prior year third quarter again as a result of the acquired banks' outsourced data processing expense. OREO expense decreased $1.9 million, or 65 percent, from the prior quarter and decreased $5.3 million, or 84 percent, from the prior year third quarter. The current quarter OREO expense of $1.0 million included $418 thousand of operating expense, $394 thousand of fair value write-downs, and $237 thousand of loss on sale of OREO. OREO expense will fluctuate as the Company continues to work through non-performing loans and dispose of foreclosed properties. Other expense increased by $1.4 million, or 16 percent, over the prior year third quarter primarily from legal and professional expenses associated with the acquisitions and other miscellaneous expense.

Efficiency Ratio

The efficiency ratio for the current quarter was 54 percent compared to 55 percent for the prior year third quarter. The decrease in the efficiency ratio was primarily driven by the increase in net interest income which exceeded the increase in non-interest expense.

Provision for Loan Losses

The following table summarizes the provision for loan losses, net charge-offs and select ratios relating to the provision for loan losses for the previous eight quarters:

(Dollars in thousands)	Provision for Loan Losses	Net Charge-Offs	ALLL as a Percent of Loans	Accruing Loans 30-89 Days Past Due as a Percent of Loans	Non-Performing Assets to Total Sub-sidiary Assets
Third quarter 2013	$ 1,907	$ 2,025	3.27 %	0.66 %	1.56 %
Second quarter 2013	1,078	1,030	3.56 %	0.60 %	1.64 %
First quarter 2013	2,100	2,119	3.84 %	0.95 %	1.79 %
Fourth quarter 2012	2,275	8,081	3.85 %	0.80 %	1.87 %
Third quarter 2012	2,700	3,499	4.01 %	0.83 %	2.33 %
Second quarter 2012	7,925	7,052	3.99 %	1.41 %	2.69 %
First quarter 2012	8,625	9,555	3.98 %	1.24 %	2.91 %
Fourth quarter 2011	8,675	9,252	3.97 %	1.42 %	2.92 %

Net charged-off loans of $2.0 million during the current quarter increased $995 thousand, or 97 percent, compared to the prior quarter and decreased $1.5 million, or 42 percent, from the prior year third quarter. The current quarter provision for loan losses of $1.9 million increased $829 thousand from the prior quarter and decreased $793 thousand from the prior year third quarter. Loan portfolio growth, composition, average loan size, credit quality considerations, and other environmental factors will continue to determine the level of provision for loan loss expense.

The determination of the allowance for loan and lease losses (“ALLL” or “allowance”) and the related provision for loan losses is a critical accounting estimate that involves management’s judgments about current environmental factors which affect loan losses, such factors including economic conditions, changes in collateral values, net charge-offs, and other factors discussed below in “Additional Management’s Discussion and Analysis.”

Operating Results for Nine Months ended September 30, 2013
Compared to September 30, 2012

Performance Summary

(Dollars in thousands, except per share data)	Nine Months ended September 30, 2013	September 30, 2012
Net income	$ 69,098	54,758
Diluted earnings per share	$ 0.95	0.76
Return on average assets (annualized)	1.19 %	0.99 %
Return on average equity (annualized)	9.96 %	8.32 %

Net income for the nine months ended September 30, 2013 was $69.1 million, an increase of $14.3 million, or 26 percent, from the $54.8 million of net income for the prior year first nine months. Diluted earnings per share for the first nine months of the current year was $0.95 per share, an increase of $0.19, or 25 percent, from the diluted earnings per share in the prior year first nine months.

Revenue Summary

The following table summarizes revenue for the periods indicated, including the amount and percentage change from September 30, 2012:

(Dollars in thousands)	Nine Months ended September 30, 2013	September 30, 2012	$ Change	% Change
Net interest income				
Interest income	$ 189,637	$ 194,091	$ (4,454)	(2)%
Interest expense	21,829	27,549	(5,720)	(21)%
Total net interest income	167,808	166,542	1,266	1 %
Non-interest income				
Service charges, loan fees, and other fees	39,765	36,861	2,904	8 %
Gain on sale of loans	23,582	23,063	519	2 %
Loss on sale of investments	(299)	—	(299)	n/m
Other income	6,997	6,179	818	13 %
Total non-interest income	70,045	66,103	3,942	6 %
	$ 237,853	$ 232,645	$ 5,208	2 %
Net interest margin (tax-equivalent)	3.34 %	3.48 %		

n/m - not measurable

Net Interest Income

Net interest income for the first nine months of the current year increased $1.3 million, or 1 percent, over the same period last year. Interest income for the first nine months of the current year decreased $4.5 million, or 2 percent, from the prior year first nine months and was principally due to the increase in premium amortization on investment securities earlier this year and the reduction of yields on the loan portfolio. Interest income was reduced by $55.0 million in premium amortization on investment securities during the first nine months of the current year which was an increase of $6.3 million from the first nine months of the prior year. Such decrease in interest income were partially offset by an increased volume in commercial loans and investment securities.

Interest expense for the first nine months of the current year decreased $5.7 million, or 21 percent, from the prior year first nine months and was primarily attributable to the decreases in interest rates on interest bearing deposits and borrowings. The funding cost (including non-interest bearing deposits) for the first nine months of 2013 was 43 basis points compared to 57 basis points for the first nine months of 2012.

The net interest margin, on a tax-equivalent basis, for the first nine months of 2013 was 3.34 percent, a 14 basis points reduction from the net interest margin of 3.48 percent for the first nine months of 2012. The reduction was a result of lower yields on loans and higher premium amortization on investment securities, both of which outpaced the reduction in funding cost. The premium amortization for the first nine months of 2013 accounted for a 103 basis points reduction in the net interest margin, which was an increase of 8 basis points compared to the 95 basis points reduction in the net interest margin for the same period last year.

Non-interest Income

Non-interest income of $70.0 million for the first nine months of 2013 increased $3.9 million, or 6 percent, over the same period last year. Gains of $23.6 million on the sale of loans for the first nine months of 2013 increased $519 thousand, or 2 percent, from the first nine months of 2012. Other income for the first nine months of 2013 increased $818 thousand, or 13 percent, over the first nine months of 2012. Included in other income was operating revenue of $247 thousand from OREO and gains of $1.6 million on the sale of OREO, which totaled $1.9 million for the first nine months of 2013 compared to $1.5 million for the same period in the prior year.

Non-interest Expense Summary

The following table summarizes non-interest expense for the periods indicated, including the amount and percentage change from September 30, 2012:

(Dollars in thousands)	Nine Months ended September 30, 2013	September 30, 2012	$ Change	% Change
Compensation and employee benefits	$ 76,963	$ 71,290	$ 5,673	8 %
Occupancy and equipment	18,152	17,794	358	2 %
Advertising and promotions	5,066	4,935	131	3 %
Outsourced data processing	2,870	2,435	435	18 %
Other real estate owned	4,901	15,394	(10,493)	(68)%
Federal Deposit Insurance Corporation premiums	3,789	4,779	(990)	(21)%
Core deposit intangibles amortization	1,684	1,619	65	4 %
Other expense	28,858	27,167	1,691	6 %
Total non-interest expense	$ 142,283	$ 145,413	$ (3,130)	(2)%

Compensation and employee benefits for the first nine months of 2013 increased $5.7 million, or 8 percent, from the same period last year. OREO expense of $4.9 million in the first nine months of 2013 decreased $10.5 million, or 68 percent, from the first nine months of the prior year. Outsourced data processing expense increased $435 thousand, or 18 percent, from the prior year first nine months as a result of the acquired banks outsourced data processing expense. The OREO expense for the first nine months of 2013 included $2.0 million of operating expenses, $2.4 million of fair value write-downs, and $538 thousand of loss on sale of OREO. Other expense for the first nine months of 2013 increased by $1.7 million, or 6 percent, from the first nine months of the prior year and was principally attributable to the legal and professional expenses associated with the acquisitions.

Efficiency Ratio

The efficiency ratio was 55 percent for the first nine months of 2013 and 53 percent for the first nine months of 2012. Although there was an increase in non-interest income and net interest income during the first nine months of the current year over the prior year, it was not enough to offset the increase in non-interest expense, excluding OREO expense, resulting in the increased efficiency ratio.

Provision for loan losses

The provision for loan losses was $5.1 million for the first nine months of 2013, a decrease of $14.2 million, or 74 percent, from the same period in the prior year. Net charged-off loans during the first nine months of 2013 was $5.2 million, a decrease of $14.9 million from the first nine months of 2012.

ADDITIONAL MANAGEMENT'S DISCUSSION AND ANALYSIS

Lending Activity and Practices

The Company focuses its lending activities primarily on the following types of loans: 1) first-mortgage, conventional loans secured by residential properties, particularly single-family, 2) commercial lending that concentrates on targeted businesses, and 3) installment lending for consumer purposes (e.g., auto, home equity, etc.). Supplemental information regarding the Company's loan portfolio and credit quality based on regulatory classification is provided in the section captioned "Loans by Regulatory Classification" included in "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations." The regulatory classification of loans is based primarily on the type of collateral for the loans. Loan information included in "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" is based on the Company's loan segments and classes which is based on the purpose of the loan, unless otherwise noted as a regulatory classification.

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

	September 30, 2013		December 31, 2012		September 30, 2012	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent
Residential real estate loans	$583,817	15 %	$516,467	16 %	$528,177	16 %
Commercial loans						
Real estate	1,994,058	51 %	1,655,508	51 %	1,652,052	51 %
Other commercial	834,229	22 %	623,397	19 %	620,907	19 %
Total	2,828,287	73 %	2,278,905	70 %	2,272,959	70 %
Consumer and other loans						
Home equity	373,512	10 %	403,925	12 %	406,904	12 %
Other consumer	215,483	5 %	198,128	6 %	200,054	6 %
Total	588,995	15 %	602,053	18 %	606,958	18 %
Loans receivable	4,001,099	103 %	3,397,425	104 %	3,408,094	104 %
Allowance for loan and lease losses	(130,765)	(3)%	(130,854)	(4)%	(136,660)	(4)%
Loans receivable, net	$3,870,334	100 %	$3,266,571	100 %	$3,271,434	100 %

Non-performing Assets

The following table summarizes information regarding non-performing assets at the dates indicated:

(Dollars in thousands)	At or for the Nine Months ended September 30, 2013	At or for the Year ended December 31, 2012	At or for the Nine Months ended September 30, 2012
Other real estate owned	$ 36,531	45,115	57,650
Accruing loans 90 days or more past due			
Residential real estate	—	451	551
Commercial	144	791	2,088
Consumer and other	30	237	632
Total	174	1,479	3,271
Non-accrual loans			
Residential real estate	12,604	14,237	18,941
Commercial	65,127	68,887	85,899
Consumer and other	10,562	13,809	11,016
Total	88,293	96,933	115,856
Total non-performing assets [1]	$ 124,998	143,527	176,777
Non-performing assets as a percentage of subsidiary assets	1.56 %	1.87 %	2.33 %
Allowance for loan and lease losses as a percentage of non-performing loans	148 %	133 %	115 %
Accruing loans 30-89 days past due	$ 26,401	27,097	28,434
Troubled debt restructurings not included in non-performing assets	$ 86,850	100,151	103,980
Interest income [2]	$ 3,340	5,161	4,642

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1 As of September 30, 2013, non-performing assets have not been reduced by U.S. government guarantees of $4.0 million.

2 Amounts represent estimated interest income that would have been recognized on loans accounted for on a non-accrual basis as of the end of each period had such loans performed pursuant to contractual terms.

During the first nine months of 2013, the Company continued to diligently and methodically reduce non-performing assets. Non-performing assets at September 30, 2013 were $125 million, a decrease of $5.5 million, or 4 percent, during the current quarter and a decrease of $51.8 million, or 29 percent, from a year ago. The largest category of non-performing assets was the land, lot and other construction category which was $55.3 million, or 44 percent, of the non-performing assets at September 30, 2013. Included in this category was $25.8 million of land development loans and $15.0 million in unimproved land loans at September 30, 2013. The Company has continued to reduce the land, lot and other construction category over the prior two years. The Company’s early stage delinquencies (accruing loans 30-89 days past due) of 26.4 million at September 30, 2013 increased $4.3 million, or 20 percent, from the prior quarter and decreased $2.0 million, or 7 percent, from the prior year third quarter early stage delinquencies.

Most of the Company's non-performing assets are secured by real estate, and based on the most current information available to management, including updated appraisals or evaluations (new or updated), the Company believes the value of the underlying real estate collateral is adequate to minimize significant charge-offs or loss to the Company. The Company evaluates the level of its non-performing assets, the values of the underlying real estate and other collateral, and related trends in net charge-offs in determining the adequacy of the ALLL. Through pro-active credit administration, the Company works closely with its borrowers to seek favorable resolution to the extent possible, thereby attempting to minimize net charge-offs or losses to the Company. Throughout the past year, the Company has maintained an adequate allowance while working to reduce non-performing assets. The improvement in the credit quality ratios over the past year is a product of this effort.

For non-performing construction loans involving residential structures, the percentage of completion exceeds 95 percent at September 30, 2013. For non-performing construction loans involving commercial structures, the percentage of completion ranges from projects not started to projects completed at September 30, 2013. During the construction loan term, all construction loan collateral properties are inspected at least monthly, or more frequently as needed, until completion. Draws on construction loans are predicated upon the results of the inspection and advanced based upon a percentage of completion basis versus original budget percentages. When construction loans become non-performing and the associated project is not complete, the Company on a case-by-case basis makes the decision to advance additional funds or to initiate collection/foreclosure proceedings. Such decision includes obtaining "as-is" and "at completion" appraisals for consideration of potential increases or decreases in the collateral's value. The Company also considers the increased costs of monitoring progress to completion, and the related collection/holding period costs should collateral ownership be transferred to the Company. With very limited exception, the Company does not disburse additional funds on non-performing loans. Instead, the Company has proceeded to collection and foreclosure actions in order to reduce the Company's exposure to loss on such loans.

Construction loans, a regulatory classification, accounted for 39 percent of the Company's non-accrual loans as of September 30, 2013. Land, lot and other construction loans, a regulatory classification, were 95 percent of the non-accrual construction loans. Of the Company's $34.2 million of non-accrual construction loans at September 30, 2013, 95 percent of such loans had collateral properties securing the loans in Western Montana and Idaho. With locations and operations in the contiguous northern Rocky Mountain states of Idaho and Montana, the geography and economies of each of these geographic areas are predominantly tied to real estate development given the sprawling abundance of timbered valleys and mountainous terrain with significant lakes, streams and watershed areas. Consistent with the general economic downturn, the market for upscale primary, secondary and other housing as well as the associated construction and building industries have stalled after years of significant growth. As the housing market (rental and owner-occupied) and related industries continue to recover from the downturn, the Company continues to reduce its exposure to loss in the land, lot and other construction loan portfolio.

For additional information on accounting policies relating to non-performing assets and impaired loans, see Note 1 to the Consolidated Financial Statements in "Part I. Item 1. Financial Statements."

Impaired Loans

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).

Impaired loans were $207 million and $202 million as of September 30, 2013 and December 31, 2012, respectively. The ALLL includes specific valuation allowances of $12.7 million and $15.5 million of impaired loans as of September 30, 2013 and December 31, 2012, respectively. Of the total impaired loans at September 30, 2013, there were 28 significant commercial real estate and other commercial loans that accounted for $82.1 million, or 40 percent, of the impaired loans. The 28 loans were collateralized by 125 percent of the loan value, the majority of which had appraisals or evaluations (new or updated) during the last year, such appraisals reviewed at least quarterly taking into account current market conditions. Of the total impaired loans at September 30, 2013, there were 163 loans aggregating $100 million, or 48 percent, whereby the borrowers had more than one impaired loan. The amount of impaired loans that have had partial charge-offs during the year for which the Company continues to have concern about the collectability of the remaining loan balance was $3.4 million. Of these loans, there were charge-offs of $1.7 million during 2013.

Restructured Loans
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 had TDR loans of $128 million and $151 million as of September 30, 2013 and December 31, 2012, respectively. The Company’s TDR loans are considered impaired loans of which $40.9 million and $50.9 million as of September 30, 2013 and December 31, 2012, respectively, are designated as non-accrual.

Each restructured debt is separately negotiated with the borrower and includes terms and conditions that reflect the borrower’s prospective ability to service the debt as modified. The Company discourages the use of the multiple loan strategy when restructuring loans regardless of whether or not the notes are TDR loans. The Company does not have any commercial TDR loans as of September 30, 2013 that have repayment dates extended at or near the original maturity date for which the Company has not classified as impaired. At September 30, 2013, the Company has TDR loans of $25.6 million that are in non-accrual status or that have had partial charge-offs during the year, the borrowers of which continue to have $44.7 million in other loans that are on accrual status.

Other Real Estate Owned
The loan book value prior to the acquisition and transfer of the loan into OREO during 2013 was $14.7 million of which $4.2 million was residential real estate, $8.5 million was commercial, and $2.0 million was consumer loans. The fair value of the loan collateral acquired in foreclosure during 2013 was $13.1 million of which $3.6 million was residential real estate, $7.5 million was commercial, and $2.0 million was consumer loans. The following table sets forth the changes in OREO for the periods indicated:

(Dollars in thousands)	Nine Months ended September 30, 2013	Year ended December 31, 2012	Nine Months ended September 30, 2012
Balance at beginning of period	$45,115	78,354	78,354
Acquisitions	1,203	—	—
Additions	13,091	27,536	21,029
Capital improvements	79	—	—
Write-downs	(2,365)	(13,258)	(11,393)
Sales	(20,592)	(47,517)	(30,340)
Balance at end of period	$36,531	45,115	57,650

Allowance for Loan and Lease 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 ALLL methodology is designed to reasonably estimate the probable loan and lease losses within the Company’s loan portfolio. Accordingly, the ALLL is maintained within a range of estimated losses. The determination of the ALLL, including the provision for loan losses and net charge-offs, is a critical accounting estimate that involves management’s judgments about all known relevant internal and external environmental factors that affect loan losses, including the credit risk inherent in the loan portfolio, economic conditions nationally and in the local markets in which the Company operates, changes in collateral values, delinquencies, non-performing assets and net charge-offs.

Although the Company continues to actively monitor economic trends, soft economic conditions combined with potential declines in the values of real estate that collateralize most of the Company’s loan portfolio may adversely affect the credit risk and potential for loss to the Company.

The ALLL evaluation is well documented and approved by the Company's Board of Directors. In addition, the policy and procedures for determining the balance of the ALLL are reviewed annually by the Company's Board of Directors, the internal audit department, independent credit reviewers and state and federal bank regulatory agencies.

At the end of each quarter, the Company analyzes its loan portfolio and maintains an ALLL at a level that is appropriate and determined in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The allowance consists of a specific valuation allowance component and a general valuation allowance component. The specific valuation allowance component relates to loans that are determined to be impaired. A specific valuation allowance is established when the fair value of a collateral-dependent loan or the present value of the loan's expected future cash flows (discounted at the loan's effective interest rate) is lower than the carrying value of the impaired loan. The general valuation allowance component relates to probable credit losses inherent in the balance of the loan portfolio based on prior loss experience, adjusted for changes in trends and conditions of qualitative or environmental factors.

The Bank divisions' credit administration reviews their respective loan portfolios to determine which loans are impaired and estimates the specific valuation allowance. The impaired loans and related specific valuation allowance are then provided to the Company's credit administration for further review and approval. The Company's credit administration also determines the estimated general valuation and reviews and approves the overall ALLL for the Company. The credit administration of the Company exercises significan