GLACIER BANCORP INC
Form 10-Q
August 02, 2016

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission file number 000-18911

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes No ¨
Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
The number of shares of Registrant's common stock outstanding on July 18, 2016 was 76,172,299. No preferred shares are issued or outstanding.

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ABBREVIATIONS/ACRONYMS

ALCO – Asset Liability Committee
ALLL or allowance – allowance for loan and lease losses
ASC – Accounting Standards Codification™
Bank – Glacier Bank
Basel III – third installment of the Basel Accords
Board – Glacier Bancorp, Inc.'s Board of Directors
Cañon – Cañon Bank Corporation and its subsidiary, Cañon National Bank
CCP – Core Consolidation Project
CDE – Certified Development Entity
CDFI Fund – Community Development Financial Institutions Fund
CEO – Chief Executive Officer
CFO – Chief Financial Officer
Company – Glacier Bancorp, Inc.
DDA – demand deposit account
Dodd-Frank Act – Dodd-Frank Wall Street Reform and Consumer Protection Act
Fannie Mae – Federal National Mortgage Association
FASB – Financial Accounting Standards Board
FHLB – Federal Home Loan Bank
Final Rules – final rules implemented by the federal banking agencies that amended regulatory risk-based capital rules
FRB – Federal Reserve Bank
Freddie Mac – Federal Home Loan Mortgage Corporation
GAAP – accounting principles generally accepted in the United States of America
Ginnie Mae – Government National Mortgage Association
LIBOR – London Interbank Offered Rate
LIHTC – Low Income Housing Tax Credit
NMTC – New Markets Tax Credit
NOW – negotiable order of withdrawal
NRSRO – Nationally Recognized Statistical Rating Organizations
OCI – other comprehensive income
OREO – other real estate owned
Repurchase agreements – securities sold under agreements to repurchase
S&P – Standard and Poor's
SEC – United States Securities and Exchange Commission
TDR – troubled debt restructuring
VIE – variable interest entity

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

(Dollars in thousands, except per share data)	June 30, 2016	December 31, 2015
Assets		
Cash on hand and in banks	$147,748	117,137
Federal funds sold	—	6,080
Interest bearing cash deposits	12,585	70,036
Cash and cash equivalents	160,333	193,253
Investment securities, available-for-sale	2,487,955	2,610,760
Investment securities, held-to-maturity	680,574	702,072
Total investment securities	3,168,529	3,312,832
Loans held for sale	74,140	56,514
Loans receivable	5,378,617	5,078,681
Allowance for loan and lease losses	(132,386)	(129,697)
Loans receivable, net	5,246,231	4,948,984
Premises and equipment, net	177,911	194,030
Other real estate owned	24,370	26,815
Accrued interest receivable	47,554	44,524
Deferred tax asset	46,488	58,475
Core deposit intangible, net	12,970	14,555
Goodwill	140,638	140,638
Non-marketable equity securities	24,791	27,495
Other assets	75,487	71,117
Total assets	$9,199,442	9,089,232
Liabilities		
Non-interest bearing deposits	$1,907,026	1,918,310
Interest bearing deposits	5,181,790	5,026,698
Securities sold under agreements to repurchase	414,327	423,414
Federal Home Loan Bank advances	328,832	394,131
Other borrowed funds	4,926	6,602
Subordinated debentures	125,920	125,848
Accrued interest payable	3,486	3,517
Other liabilities	108,476	114,062
Total liabilities	8,074,783	8,012,582
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	762	761
Paid-in capital	737,379	736,368
Retained earnings - substantially restricted	366,105	337,532
Accumulated other comprehensive income	20,413	1,989
Total stockholders' equity	1,124,659	1,076,650
Total liabilities and stockholders' equity	$9,199,442	9,089,232
Number of common stock shares issued and outstanding	76,171,580	76,086,288

See accompanying notes to unaudited condensed consolidated financial statements.

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GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months ended		Six Months ended	
(Dollars in thousands, except per share data)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest Income				
Investment securities	$23,037	21,959	46,920	44,918
Residential real estate loans	8,124	7,942	16,409	15,703
Commercial loans	47,002	40,698	91,505	79,720
Consumer and other loans	7,906	8,018	15,616	15,762
Total interest income	86,069	78,617	170,450	156,103
Interest Expense				
Deposits	4,560	4,112	9,355	8,259
Securities sold under agreements to repurchase	275	232	593	473
Federal Home Loan Bank advances	1,665	2,217	3,317	4,412
Other borrowed funds	14	15	32	42
Subordinated debentures	910	793	1,802	1,565
Total interest expense	7,424	7,369	15,099	14,751
Net Interest Income	78,645	71,248	155,351	141,352
Provision for loan losses	—	282	568	1,047
Net interest income after provision for loan losses	78,645	70,966	154,783	140,305
Non-Interest Income				
Service charges and other fees	15,772	15,062	30,453	28,511
Miscellaneous loan fees and charges	1,163	1,142	2,184	2,299
Gain on sale of loans	8,257	7,600	14,249	13,030
Loss on sale of investments	(220)	(98)	(112)	(93)
Other income	1,787	2,096	4,237	4,748
Total non-interest income	26,759	25,802	51,011	48,495
Non-Interest Expense				
Compensation and employee benefits	37,560	32,729	74,501	64,973
Occupancy and equipment	6,443	6,432	13,119	12,492
Advertising and promotions	2,085	2,240	4,210	4,167
Data processing	3,938	2,971	7,311	5,522
Other real estate owned	214	1,377	604	2,135
Regulatory assessments and insurance	1,066	1,006	2,574	2,311
Core deposit intangibles amortization	788	755	1,585	1,486
Other expenses	12,367	12,435	22,913	22,356
Total non-interest expense	64,461	59,945	126,817	115,442
Income Before Income Taxes	40,943	36,823	78,977	73,358
Federal and state income tax expense	10,492	7,488	19,844	16,353
Net Income	$30,451	29,335	59,133	57,005
Basic earnings per share	$0.40	0.39	0.78	0.76
Diluted earnings per share	$0.40	0.39	0.78	0.76
Dividends declared per share	$0.20	0.19	0.40	0.37
Average outstanding shares - basic	76,170,734	75,530,591	76,148,493	75,369,366
Average outstanding shares - diluted	76,205,069	75,565,655	76,191,655	75,407,621

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Three Months ended		Six Months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net Income	$30,451	29,335	59,133	57,005
Other Comprehensive Income (Loss), Net of Tax				
Unrealized gains (losses) on available-for-sale securities	26,961	(25,750)	40,559	(20,569)
Reclassification adjustment for losses included in net income	118	49	57	45
Net unrealized gains (losses) on available-for-sale securities	27,079	(25,701)	40,616	(20,524)
Tax effect	(10,491)	9,957	(15,735)	7,978
Net of tax amount	16,588	(15,744)	24,881	(12,546)
Unrealized (losses) gains on derivatives used for cash flow hedges	(4,020)	3,896	(13,948)	(2,097)
Reclassification adjustment for losses included in net income	1,578	1,257	3,407	2,508
Net unrealized (losses) gains on derivatives used for cash flow hedges	(2,442)	5,153	(10,541)	411
Tax effect	946	(1,996)	4,084	(169)
Net of tax amount	(1,496)	3,157	(6,457)	242
Total other comprehensive income (loss), net of tax	15,092	(12,587)	18,424	(12,304)
Total Comprehensive Income	$45,543	16,748	77,557	44,701

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months ended June 30, 2016 and 2015

(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, 2014	75,026,092	$ 750	708,356	301,197	17,744	1,028,047
Comprehensive income	—	—	—	57,005	(12,304)	44,701
Cash dividends declared ($0.37 per share)	—	—	—	(28,019)	—	(28,019)
Stock issuances under stock incentive plans	61,522	1	(300)	—	—	(299)
Stock issued in connection with acquisitions	443,644	4	10,772	—	—	10,776
Stock-based compensation and related taxes	—	—	1,245	—	—	1,245
Balance at June 30, 2015	75,531,258	$ 755	720,073	330,183	5,440	1,056,451
Balance at December 31, 2015	76,086,288	$ 761	736,368	337,532	1,989	1,076,650
Comprehensive income	—	—	—	59,133	18,424	77,557
Cash dividends declared ($0.40 per share)	—	—	—	(30,560)	—	(30,560)
Stock issuances under stock incentive plans	85,292	1	(1)	—	—	—
Stock-based compensation and related taxes	—	—	1,012	—	—	1,012
Balance at June 30, 2016	76,171,580	$ 762	737,379	366,105	20,413	1,124,659

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Six Months ended June 30, 2016	June 30, 2015
Operating Activities		
Net income	$59,133	57,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	568	1,047
Net amortization of investment securities premiums and discounts	13,423	13,376
Loans held for sale originated or acquired	(481,713)	(449,630)
Proceeds from sales of loans held for sale	482,533	460,799
Gain on sale of loans	(14,249)	(13,030)
Loss on sale of investments	112	93
Stock-based compensation expense, net of tax benefits	459	700
Excess tax benefits from stock-based compensation	(15)	(102)
Depreciation of premises and equipment	7,532	6,658
(Gain) loss on sale of other real estate owned and write-downs, net	(22)	619
Amortization of core deposit intangibles	1,585	1,486
Net increase in accrued interest receivable	(3,030)	(3,173)
Net (increase) decrease in other assets	(3,484)	3,983
Net decrease in accrued interest payable	(31)	(496)
Net decrease in other liabilities	(8,552)	(2,405)
Net cash provided by operating activities	54,249	76,930
Investing Activities		
Sales of available-for-sale securities	20,539	35,558
Maturities, prepayments and calls of available-for-sale securities	319,271	346,230
Purchases of available-for-sale securities	(188,827)	(347,212)
Maturities, prepayments and calls of held-to-maturity securities	21,625	10,065
Purchases of held-to-maturity securities	(1,222)	(83,004)
Principal collected on loans	765,468	723,316
Loans originated or acquired	(1,070,512)	(967,774)
Net decrease (increase) of premises and equipment and other real estate owned	8,451	(7,403)
Proceeds from sale of other real estate owned	5,636	6,288
Net proceeds from sale of non-marketable equity securities	2,705	29,877
Net cash received in acquisitions	—	19,712
Net cash used in investing activities	(116,866)	(234,347)

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Six Months ended June 30, 2016	June 30, 2015
Financing Activities		
Net increase in deposits	$143,808	66,625
Net (decrease) increase in securities sold under agreements to repurchase	(9,087)	10,472
Net decrease in short-term Federal Home Loan Bank advances	(40,000)	—
Proceeds from long-term Federal Home Loan Bank advances	—	50,000
Repayments of long-term Federal Home Loan Bank advances	(25,299)	(19,410)
Net decrease in other borrowed funds	(1,604)	(575)
Cash dividends paid	(38,136)	(36,188)
Excess tax benefits from stock-based compensation	15	102
Stock-based compensation activity	—	(299)
Net cash provided by financing activities	29,697	70,727
Net decrease in cash and cash equivalents	(32,920)	(86,690)
Cash and cash equivalents at beginning of period	193,253	442,409
Cash and cash equivalents at end of period	$160,333	355,719
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$15,129	15,248
Cash paid during the period for income taxes	18,252	15,961
Supplemental Disclosure of Non-Cash Investing Activities		
Sale and refinancing of other real estate owned	$602	265
Transfer of loans to other real estate owned	3,635	5,181
Dividend declared but not paid	15,317	14,388
Acquisitions		
Fair value of common stock shares issued	—	10,776
Cash consideration for outstanding shares	—	12,219
Fair value of assets acquired	—	174,637
Liabilities assumed	—	152,779

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

General

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the Company's financial condition as of June 30, 2016, the results of operations and comprehensive income for the three and six month periods ended June 30, 2016 and 2015, and changes in stockholders' equity and cash flows for the six month periods ended June 30, 2016 and 2015. The condensed consolidated statement of financial condition of the Company as of December 31, 2015 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, 2015. Operating results for the six months ended June 30, 2016 are not necessarily indicative of the results anticipated for the year ending December 31, 2016.

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

Material estimates that are particularly susceptible to significant change include: 1) the determination of the allowance for loan and lease losses ("ALLL" or "allowance"); 2) the valuation of investment securities; 3) the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans; and 4) the evaluation of goodwill impairment. For the determination of the ALLL and real estate valuation estimates, management obtains independent appraisals (new or updated) for significant items. Estimates relating to investment valuations are obtained from independent third parties. Estimates relating to the evaluation of goodwill for impairment are determined based on internal calculations using significant independent party inputs.

Principles of Consolidation

The consolidated financial statements of the Company include the parent holding company, the Bank and all variable interest entities ("VIE") for which the Company has both the power to direct the VIE's significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could potentially be significant to the VIE. The Bank consists of thirteen bank divisions, a treasury division and an information technology division. The treasury division includes the Bank's investment portfolio and wholesale borrowings and the information technology division includes the Bank's internal data processing and information technology expenses. The Bank divisions operate under separate names, management teams and directors. The Company considers the Bank to be its sole operating segment as the Bank 1) engages in similar bank business activity from which it earns revenues and incurs expenses; 2) the

operating results of the Bank are regularly reviewed by the Chief Executive Officer (i.e., the chief operating decision maker) who makes decisions about resources to be allocated to the Bank; and 3) financial information is available for the Bank. All significant inter-company transactions have been eliminated in consolidation.

In October 2015, the Company completed its acquisition of Cañon Bank Corporation and its wholly-owned subsidiary, Cañon National Bank, a community bank based in Cañon City, Colorado (collectively, “Cañon”). In February 2015, the Company completed its acquisition of Montana Community Banks, Inc. and its wholly-owned subsidiary, Community Bank, Inc., a community bank based in Ronan, Montana. The transactions were accounted for using the acquisition method, and their results of operations have been included in the Company’s consolidated financial statements as of the acquisition dates.

In February 2015, the Financial Accounting Standards Board's ("FASB") amended consolidation guidance by modifying the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities and by changing how entities analyze related-party relationships and fee arrangements. As a result of this amendment, the Company determined it was no longer the primary beneficiary of its Low-Income Housing Tax Credit ("LIHTC") partnerships and deconsolidated its LIHTC investments effective January 1, 2016. There was no material effect on the Company's financial condition or results of operations upon adoption of this accounting guidance.

Pending Acquisition

On April 20, 2016, the Company announced the signing of a definitive agreement to acquire Treasure State Bank, a community bank based in Missoula, Montana. Treasure State Bank provides banking services to individuals and businesses in the greater Missoula market. Upon closing of the transaction, which is anticipated to take place in the third quarter of 2016, Treasure State Bank will be merged into the Bank and will become part of the First Security Bank of Missoula division.

Loans Receivable

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

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

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

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

significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the facts and circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest due.

A restructured loan is considered a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company periodically enters into restructure agreements with borrowers whereby the loans were previously identified as TDRs. When such circumstances occur, the Company carefully evaluates the facts of the subsequent restructure to determine the appropriate accounting and under certain circumstances it may be acceptable not to account for the subsequently restructured loan as a TDR. When assessing whether a concession has been granted by the Company, any prior forgiveness on a cumulative basis is considered a continuing concession. A TDR loan is considered an impaired loan and a specific valuation allowance is established when the fair value of the collateral-dependent loan or present value of the loan's expected future cash flows (discounted at the loan's effective interest rate based on the original contractual rate) is lower than the carrying value of the impaired loan. The Company has made the following types of loan modifications, some of which were considered a TDR:

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

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

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

For additional information relating to loans, see Note 3.

Allowance for Loan and Lease Losses

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

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

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

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

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

Home Equity. Home equity loans consist of junior lien mortgages and first and junior lien lines of credit (revolving open-end and amortizing closed-end) secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans is impacted by economic conditions within the Company's market areas that affect the value of the residential property securing the loans and affect the borrowers' personal incomes. Mitigating risk factors for this loan class are a large number of borrowers, geographic dispersion of market areas and the loans are originated for terms that range from 10 years to 20 years.

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

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

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

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

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in global, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in experience, ability, and depth of lending management and other relevant staff;
- Changes in the volume and severity of past due and nonaccrual loans;

- Changes in the quality of the Company’s loan review system;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company’s existing portfolio.

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

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

Reclassifications
Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

Impact of Recent Authoritative Accounting Guidance
The Accounting Standards Codification™ ("ASC") is FASB's officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under the authority of the federal securities laws are also sources of authoritative GAAP for the Company as an SEC registrant. All other accounting literature is non-authoritative. The following paragraphs provide descriptions of recently adopted or newly issued but not yet effective accounting standards that could have a material effect on the Company's financial position or results of operations.

In June 2016, FASB amended FASB ASC Topic 326, Financial Instruments - Credit Losses. The amendments in this Update replace the incurred loss model with a methodology that reflects expected credit losses over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact of these amendments to the Company's financial position and results of operations.

In March 2016, FASB amended FASB ASC Topic 718, Compensation - Stock Compensation. The amendments in this Update address certain aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of awards on the statement of cash flows. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted in any interim or annual period. The Company is currently evaluating the impact of these amendments, but does not expect them to have a material effect on the Company's financial position or results of operations.

In February 2016, FASB amended FASB ASC Topic 842, Leases. The amendments in this Update address several aspects of lease accounting with the significant change being the recognition of lease assets and lease liabilities for leases previously classified as operating leases. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the impact of these amendments, but does not expect them to have a material effect on the Company's financial position or results of operations.

In January 2016, FASB amended FASB ASC Topic 825, Financial Instruments. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2017. Early adoption is only permitted under certain circumstances outlined in the amendments. A

reporting entity should apply the amendments by means of a cumulative-effect adjustment to the Company's statement of financial condition as of the beginning of the reporting year of adoption. The amendments related to equity securities without readily determinable fair values should be applied prospectively. The Company is currently evaluating the impact of these amendments, but does not expect them to have a material effect on the Company's financial position or results of operations.

In September 2015, FASB amended FASB ASC Topic 805, Business Combinations. The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustments are necessary. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments should be applied prospectively to all periods presented and are effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2015. The Company has evaluated the impact of these amendments and determined there was not a material effect on the Company's financial position or results of operations.

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

In May 2014, FASB amended FASB ASC Topic 606, Revenue from Contracts with Customers. The amendments clarify the principals for recognizing revenue and develop a common revenue standard among industries. The new guidance establishes the following core principal: recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. Five steps are provided for a company or organization to follow to achieve such core principle. The new guidance also includes a cohesive set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The entity should apply the amendments using one of two retrospective methods described in the amendment. Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606) delayed the effective date for public entities to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of these amendments, but does not expect them to have a material effect on the Company's financial position or results of operations.

Note 2. Investment Securities

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

	June 30, 2016			
	Amortized Cost	Gross Unrealized		Fair Value
(Dollars in thousands)		Gains	Losses	
Available-for-sale				
U.S. government and federal agency	$43,573	33	(220)	43,386
U.S. government sponsored enterprises	46,307	592	—	46,899
State and local governments	858,382	49,742	(5,335)	902,789
Corporate bonds	434,209	3,076	(192)	437,093
Residential mortgage-backed securities	1,042,121	16,219	(552)	1,057,788
Total available-for-sale	2,424,592	69,662	(6,299)	2,487,955
Held-to-maturity				
State and local governments	680,574	48,980	(3,189)	726,365
Total held-to-maturity	680,574	48,980	(3,189)	726,365
Total investment securities	$3,105,166	118,642	(9,488)	3,214,320

	December 31, 2015			
	Amortized Cost	Gross Unrealized		Fair Value
(Dollars in thousands)		Gains	Losses	
Available-for-sale				
U.S. government and federal agency	$47,868	15	(432)	47,451
U.S. government sponsored enterprises	93,230	100	(163)	93,167
State and local governments	856,738	34,159	(5,878)	885,019
Corporate bonds	386,629	611	(3,077)	384,163
Residential mortgage-backed securities	1,203,548	6,180	(8,768)	1,200,960
Total available-for-sale	2,588,013	41,065	(18,318)	2,610,760
Held-to-maturity				
State and local governments	702,072	31,863	(4,422)	729,513
Total held-to-maturity	702,072	31,863	(4,422)	729,513
Total investment securities	$3,290,085	72,928	(22,740)	3,340,273

The following table presents the amortized cost and fair value of available-for-sale and held-to-maturity securities by contractual maturity at June 30, 2016. Actual maturities may differ from expected or contractual maturities since issuers have the right to prepay obligations with or without prepayment penalties.

	June 30, 2016			
	Available-for-Sale		Held-to-Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$142,316	142,834	—	—
Due after one year through five years	467,688	472,160	—	—
Due after five years through ten years	176,826	187,546	39,376	41,965
Due after ten years	595,641	627,627	641,198	684,400
	1,382,471	1,430,167	680,574	726,365
Residential mortgage-backed securities [1]	1,042,121	1,057,788	—	—
Total	$2,424,592	2,487,955	680,574	726,365

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

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

	Three Months ended		Six Months ended	
(Dollars in thousands)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Available-for-sale				
Proceeds from sales and calls of investment securities	$29,861	11,918	88,484	74,621
Gross realized gains [1]	143	43	943	82
Gross realized losses [1]	(261)	(92)	(1,000)	(127)
Held-to-maturity				
Proceeds from calls of investment securities	10,470	9,605	21,625	10,065
Gross realized gains [1]	44	14	91	15
Gross realized losses [1]	(146)	(63)	(146)	(63)

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

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

	June 30, 2016					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. government and federal agency	$1,686	(2)	34,603	(218)	36,289	(220)
State and local governments	15,644	(239)	123,203	(5,096)	138,847	(5,335)
Corporate bonds	36,068	(97)	18,521	(95)	54,589	(192)
Residential mortgage-backed securities	63,098	(271)	28,018	(281)	91,116	(552)
Total available-for-sale	$116,496	(609)	204,345	(5,690)	320,841	(6,299)
Held-to-maturity						
State and local governments	$2,967	(73)	90,809	(3,116)	93,776	(3,189)
Total held-to-maturity	$2,967	(73)	90,809	(3,116)	93,776	(3,189)

	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. government and federal agency	$42,493	(432)	2	—	42,495	(432)
U.S. government sponsored enterprises	60,010	(163)	—	—	60,010	(163)
State and local governments	102,422	(1,629)	115,943	(4,249)	218,365	(5,878)
Corporate bonds	228,258	(1,812)	13,962	(1,265)	242,220	(3,077)
Residential mortgage-backed securities	730,412	(7,226)	53,021	(1,542)	783,433	(8,768)
Total available-for-sale	$1,163,595	(11,262)	182,928	(7,056)	1,346,523	(18,318)
Held-to-maturity						
State and local governments	$42,322	(594)	81,709	(3,828)	124,031	(4,422)
Total held-to-maturity	$42,322	(594)	81,709	(3,828)	124,031	(4,422)

Based on an analysis of its investment securities with unrealized losses as of June 30, 2016 and December 31, 2015, the Company determined that none of such securities had other-than-temporary impairment and the unrealized losses were primarily the result of interest rate changes and market spreads subsequent to acquisition. The fair value of the investment securities is expected to recover as payments are received and the securities approach maturity. At June 30, 2016, management determined that it did not intend to sell investment securities with unrealized losses, and there was no expected requirement to sell any of its investment securities with unrealized losses before recovery of their amortized cost.

Note 3. Loans Receivable, Net

The Company's loan portfolio is comprised of three segments: residential real estate, commercial, and consumer and other loans. The loan segments are further disaggregated into the following classes: residential real estate, commercial real estate, other commercial, home equity and other consumer loans. The following table presents loans receivable for each portfolio class of loans:

(Dollars in thousands)	At or for the Six Months ended June 30, 2016	At or for the Year ended December 31, 2015
Residential real estate loans	$672,895	688,912
Commercial loans		
Real estate	2,773,298	2,633,953
Other commercial	1,258,227	1,099,564
Total	4,031,525	3,733,517
Consumer and other loans		
Home equity	431,659	420,901
Other consumer	242,538	235,351
Total	674,197	656,252
Loans receivable [1]	5,378,617	5,078,681
Allowance for loan and lease losses	(132,386)	(129,697)
Loans receivable, net	$5,246,231	4,948,984
Weighted-average interest rate on loans (tax-equivalent)	4.83 %	4.84 %

[1] Includes net deferred fees, costs, premiums and discounts of $12,188,000 and $15,529,000 at June 30, 2016 and December 31, 2015, respectively.

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

	Three Months ended June 30, 2016					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Balance at beginning of period	$130,071	13,196	67,046	36,054	8,149	5,626
Provision for loan losses	—	699	(2,617)	654	447	817
Charge-offs	(1,369)	(255)	(34)	(267)	31	(844)
Recoveries	3,684	26	2,414	590	2	652
Balance at end of period	$132,386	13,666	66,809	37,031	8,629	6,251

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

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(Dollars in thousands)	Six Months ended June 30, 2016					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Balance at beginning of period	$129,697	14,427	67,877	32,525	8,998	5,870
Provision for loan losses	568	(450)	(3,490)	4,374	(346)	480
Charge-offs	(2,532)	(355)	(287)	(591)	(198)	(1,101)
Recoveries	4,653	44	2,709	723	175	1,002
Balance at end of period	$132,386	13,666	66,809	37,031	8,629	6,251

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

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

(Dollars in thousands)	June 30, 2016					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Individually evaluated for impairment	$4,365	215	877	2,761	118	394
Collectively evaluated for impairment	128,021	13,451	65,932	34,270	8,511	5,857
Total allowance for loan and lease losses	$132,386	13,666	66,809	37,031	8,629	6,251
Loans receivable						
Individually evaluated for impairment	$130,803	18,248	75,739	27,133	6,442	3,241
Collectively evaluated for impairment	5,247,814	654,647	2,697,559	1,231,094	425,217	239,297
Total loans receivable	$5,378,617	672,895	2,773,298	1,258,227	431,659	242,538

(Dollars in thousands)	December 31, 2015 Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Individually evaluated for impairment	$8,124	782	1,629	5,277	64	372
Collectively evaluated for impairment	121,573	13,645	66,248	27,248	8,934	5,498
Total allowance for loan and lease losses	$129,697	14,427	67,877	32,525	8,998	5,870
Loans receivable						
Individually evaluated for impairment	$140,773	20,767	85,845	23,874	6,493	3,794
Collectively evaluated for impairment	4,937,908	668,145	2,548,108	1,075,690	414,408	231,557
Total loans receivable	$5,078,681	688,912	2,633,953	1,099,564	420,901	235,351

Substantially all of the Company’s loans receivable are with customers in the Company’s geographic market areas. Although the Company has a diversified loan portfolio, a substantial portion of its customers’ ability to honor their obligations is dependent upon the economic performance in the Company’s market areas.

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

(Dollars in thousands)	At or for the Three or Six Months ended June 30, 2016 Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$23,744	3,176	10,068	9,188	156	1,156
Unpaid principal balance	23,991	3,243	10,084	9,307	165	1,192
Specific valuation allowance	4,365	215	877	2,761	118	394
Average balance - three months	27,688	5,338	10,073	10,669	306	1,302
Average balance - six months	30,020	6,310	10,900	11,087	238	1,485
Loans without a specific valuation allowance						
Recorded balance	$107,059	15,072	65,671	17,945	6,286	2,085
Unpaid principal balance	131,848	16,617	82,908	22,932	7,221	2,170
Average balance - three months	108,147	14,306	68,717	16,842	6,194	2,088
Average balance - six months	107,461	13,709	70,241	15,212	6,259	2,040
Total						
Recorded balance	$130,803	18,248	75,739	27,133	6,442	3,241
Unpaid principal balance	155,839	19,860	92,992	32,239	7,386	3,362
Specific valuation allowance	4,365	215	877	2,761	118	394
Average balance - three months	135,835	19,644	78,790	27,511	6,500	3,390
Average balance - six months	137,481	20,019	81,141	26,299	6,497	3,525

(Dollars in thousands)	At or for the Year ended December 31, 2015					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$34,683	8,253	12,554	11,923	102	1,851
Unpaid principal balance	36,157	9,198	12,581	12,335	109	1,934
Specific valuation allowance	8,124	782	1,629	5,277	64	372
Average balance	36,176	6,393	15,827	11,768	426	1,762
Loans without a specific valuation allowance						
Recorded balance	$106,090	12,514	73,291	11,951	6,391	1,943
Unpaid principal balance	132,718	13,969	94,028	15,539	7,153	2,029
Average balance	116,356	13,615	78,684	15,479	6,350	2,228
Total						
Recorded balance	$140,773	20,767	85,845	23,874	6,493	3,794
Unpaid principal balance	168,875	23,167	106,609	27,874	7,262	3,963
Specific valuation allowance	8,124	782	1,629	5,277	64	372
Average balance	152,532	20,008	94,511	27,247	6,776	3,990

Interest income recognized on impaired loans for the six months ended June 30, 2016 and 2015 was not significant.

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

(Dollars in thousands)	June 30, 2016					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$18,253	453	7,515	6,709	2,872	704
Accruing loans 60-89 days past due	5,226	1,183	885	1,910	385	863
Accruing loans 90 days or more past due	6,194	772	1,924	3,115	382	1
Non-accrual loans	45,017	4,409	23,147	11,308	5,572	581
Total past due and non-accrual loans	74,690	6,817	33,471	23,042	9,211	2,149
Current loans receivable	5,303,927	666,078	2,739,827	1,235,185	422,448	240,389
Total loans receivable	$5,378,617	672,895	2,773,298	1,258,227	431,659	242,538

(Dollars in thousands)	December 31, 2015					
	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$15,801	4,895	4,393	3,564	1,601	1,348
Accruing loans 60-89 days past due	3,612	961	1,841	286	280	244
Accruing loans 90 days or more past due	2,131	—	231	1,820	15	65
Non-accrual loans	51,133	8,073	28,819	7,691	6,022	528
Total past due and non-accrual loans	72,677	13,929	35,284	13,361	7,918	2,185
Current loans receivable	5,006,004	674,983	2,598,669	1,086,203	412,983	233,166
Total loans receivable	$5,078,681	688,912	2,633,953	1,099,564	420,901	235,351

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

	Three Months ended June 30, 2016					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
TDRs that occurred during the period						
Number of loans	19	—	5	13	1	—
Pre-modification recorded balance	$4,912	—	2,147	2,704	61	—
Post-modification recorded balance	$4,936	—	2,147	2,728	61	—
TDRs that subsequently defaulted						
Number of loans	11	1	1	3	—	6
Recorded balance	$2,933	1,918	570	316	—	129

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

	Six Months ended June 30, 2016					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
TDRs that occurred during the period						
Number of loans	22	—	6	14	2	—
Pre-modification recorded balance	$13,871	—	2,203	11,459	209	—
Post-modification recorded balance	$13,895	—	2,203	11,483	209	—
TDRs that subsequently defaulted						
Number of loans	11	1	1	3	—	6
Recorded balance	$2,933	1,918	570	316	—	129

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

The modifications for the TDRs that occurred during the six months ended June 30, 2016 and 2015 included one or a combination of the following: an extension of the maturity date, a reduction of the interest rate or a reduction in the principal amount.

In addition to the TDRs that occurred during the period provided in the preceding tables, the Company had TDRs with pre-modification loan balances of $3,649,000 and $5,494,000 for the six months ended June 30, 2016 and 2015, respectively, for which other real estate owned (“OREO”) was received in full or partial satisfaction of the loans. The majority of such TDRs were in residential real estate and commercial real estate for the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016 and December 31, 2015, the Company had $4,044,000 and $3,253,000, respectively, of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At June 30, 2016 and December 31, 2015, the Company had $4,173,000 and $1,496,000, respectively, of OREO secured by residential real estate properties.

Note 4. Goodwill

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

(Dollars in thousands)	Three Months ended June 30, 2016	June 30, 2015	Six Months ended June 30, 2016	June 30, 2015
Net carrying value at beginning of period	$140,638	130,843	140,638	129,706
Acquisitions	—	—	—	1,137
Net carrying value at end of period	$140,638	130,843	140,638	130,843

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

(Dollars in thousands)	June 30, 2016	December 31, 2015
Gross carrying value	$180,797	180,797
Accumulated impairment charge [1]	(40,159)	(40,159)
Net carrying value	$140,638	140,638

[1] A goodwill impairment charge was recognized in 2011 and was due to high levels of volatility and dislocation in bank stock prices nationwide.

The Company performed its annual goodwill impairment test during the third quarter of 2015 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.

Note 5. Variable Interest Entities

A VIE is a partnership, limited liability company, trust or other legal entity that meets one of the following criteria: 1) the entity's equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; 2) the holders of the equity investment at risk, as a group, lack the characteristics of a controlling financial interest; and 3) the voting rights of some holders of the equity investment at risk are disproportionate to their obligation to absorb losses or receive returns, and substantially all of the activities are conducted on behalf of the holder of equity investment at risk with disproportionately few voting rights. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary, which is the party involved with the VIE that has both: 1) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance; and 2) the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company's VIEs are regularly monitored to determine if any reconsideration events have occurred that could cause the primary beneficiary status to change. A previously unconsolidated VIE is consolidated when the Company becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Company ceases to be the primary beneficiary or the entity is no longer a VIE. In February 2015, FASB amended consolidation guidance by modifying the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities and by changing how entities analyze related-party relationships and fee arrangements. As a result of this amendment, the Company determined it was no longer the primary beneficiary of its LIHTC partnerships and deconsolidated its LIHTC investments effective January 1, 2016. Due to this reevaluation event, the Company determined its LIHTC investments would qualify for the proportional amortization method and elected to adopt this accounting method. The proportional amortization method allows for the amortization of LIHTC investments to be presented as a component of income taxes. Once elected, the proportional amortization method is required for all eligible LIHTC investments.

Consolidated Variable Interest Entities

The Company has equity investments in Certified Development Entities ("CDE") which have received allocations of New Markets Tax Credits ("NMTC"). The NMTC program provides federal tax incentives to investors to make investments in distressed communities and promotes economic improvements through the development of successful businesses in these communities. The NMTC is available to investors over a seven-year period and is subject to recapture if certain events occur during such period. The maximum exposure to loss in the CDEs is the amount of equity invested and credit extended by the Company. However, the Company has credit protection in the form of indemnification agreements, guarantees, and collateral arrangements. The Company has evaluated the variable interests held by the Company in each CDE (NMTC) investment and determined the Company does not individually meet the characteristics of a primary beneficiary; however, the related-party group does meet the criteria as a group and substantially all of the activities of the CDEs either involve or are conducted on behalf of the Company. As a result, the Company is the primary beneficiary of the CDEs and their assets, liabilities, and results of operations are included in the Company's consolidated financial statements. The primary activities of the CDEs are recognized in commercial loans interest income and other borrowed funds interest expense on the Company's statements of operations and the federal income tax credit allocations from the investments are recognized in the Company's statements of operations as a component of income tax expense. Such related cash flows are recognized in loans originated, principal collected on loans and change in other borrowed funds.

The following table summarizes the carrying amounts of the consolidated VIEs' assets and liabilities included in the Company's statements of financial condition and are adjusted for intercompany eliminations. All assets presented can be used only to settle obligations of the consolidated VIEs and all liabilities presented consist of liabilities for which creditors and other beneficial interest holders therein have no recourse to the general credit of the Company.

(Dollars in thousands)	June 30, 2016	December 31, 2015
Assets		
Loans receivable	$49,260	57,126
Premises and equipment, net	—	13,503
Accrued interest receivable	167	117
Other assets	1,198	1,429
Total assets	$50,625	72,175
Liabilities		
Other borrowed funds	$4,555	6,195
Accrued interest payable	4	9
Other liabilities	47	139
Total liabilities	$4,606	6,343

Unconsolidated Variable Interest Entities

The Company has equity investments in LIHTC partnerships with carrying values of $4,904,000 as of June 30, 2016. The LIHTCs are indirect federal subsidies to finance low-income housing and are used in connection with both newly constructed and renovated residential rental buildings. Once a project is placed in service, it is generally eligible for the tax credit for ten consecutive years. To continue generating the tax credit and to avoid tax credit recapture, a LIHTC building must satisfy specific low-income housing compliance rules for a full fifteen-year period. The maximum exposure to loss in the VIEs is the amount of equity invested and credit extended by the Company. However, the Company has credit protection in the form of indemnification agreements, guarantees, and collateral arrangements. The Company has evaluated the variable interests held by the Company in each LIHTC investment and determined that the Company does not have controlling financial interests in such investments, and is not the primary beneficiary. The Company reports the investments in the unconsolidated LIHTCs as other assets on the Company's statements of financial condition. Total unfunded contingent commitments related to the Company's LIHTC investments totaled $10,018,000 at June 30, 2016. The Company expects to fulfill these commitments during 2017. There were no impairment losses on the Company's LIHTC investments during the six months ended June 30, 2016.

The following table summarizes the amortization expense and the amount of tax credits and other tax benefits recognized for qualified affordable housing project investments during the six months ended June 30, 2016 and 2015. Amortization expense is recognized as a component of income tax expense.

(Dollars in thousands)	Three Months ended		Six Months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Amortization expense	$354	251	609	503
Tax credits and other tax benefits recognized	431	391	823	782

The Company also owns the following trust subsidiaries, each of which issued trust preferred securities as Tier 1 capital instruments: Glacier Capital Trust II, Glacier Capital Trust III, Glacier Capital Trust IV, Citizens (ID) Statutory Trust I, Bank of the San Juans Bancorporation Trust I, First Company Statutory Trust 2001, and First Company Statutory Trust 2003. The trust subsidiaries have no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the securities held by third parties. The trust

subsidiaries are not included in the Company's consolidated financial statements because the sole asset of each trust subsidiary is a receivable from the Company, even though the Company owns all of the voting equity shares of the trust subsidiaries, has fully guaranteed the obligations of the trust subsidiaries and may have the right to redeem the third party securities under certain circumstances. The Company reports the trust preferred securities issued to the trust subsidiaries as subordinated debentures on the Company's statements of financial condition.

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Note 6. Securities Sold Under Agreements to Repurchase

The Company's securities sold under agreements to repurchase ("repurchase agreements") totaled $414,327,000 and $423,414,000 at June 30, 2016 and December 31, 2015, respectively, and are secured by investment securities with carrying values of $426,366,000 and $446,838,000, respectively. Securities are pledged to customers at the time of the transaction in an amount at least equal to the outstanding balance and are held in custody accounts by third parties. The fair value of collateral is continually monitored and additional collateral is provided as deemed appropriate.

The following tables summarize the carrying value of the Company's repurchase agreements by remaining contractual maturity and category of collateral:

	June 30, 2016 Remaining Contractual Maturity of the Agreements		
(Dollars in thousands)	Overnight and Continuous	Up to 30 Days	Total
Residential mortgage-backed securities	$412,863	1,464	414,327

	December 31, 2015 Remaining Contractual Maturity of the Agreements		
(Dollars in thousands)	Overnight and Continuous	Up to 30 Days	Total
U.S. government sponsored enterprises	$12,507	—	12,507
Residential mortgage-backed securities	408,460	2,447	410,907
	$420,967	2,447	423,414

Note 7. Derivatives and Hedging Activities

As of June 30, 2016, the Company's interest rate swap derivative financial instruments were designated as cash flow hedges and are summarized as follows:

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

[1] The Company pays the fixed interest rate and the counterparty pays the Company the variable interest rate.

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

The interest rate swaps with the $160,000,000 and $100,000,000 notional amounts began their payment terms in October 2014 and November 2015, respectively. The Company designated wholesale deposits as the cash flow hedge

and these deposits were determined to be fully effective during the current and prior year. As such, no amount of ineffectiveness has been included in the Company's statements of operations for the six months ended June 30, 2016 and 2015. Therefore, the aggregate fair value of the interest rate swaps was recorded in other liabilities with changes recorded in other comprehensive income ("OCI"). The Company expects the hedges to remain highly effective during the remaining terms of the interest rate swaps. Interest expense recorded on the interest rate swaps totaled $3,995,000 and $2,717,000 during 2016 and 2015, respectively, and is reported as a component of interest expense on deposits. Unless the interest rate swaps are terminated during the next year, the Company expects $7,903,000 of the unrealized loss reported in other comprehensive income at June 30, 2016 to be reclassified to interest expense during the next twelve months.

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

	Three Months ended		Six Months ended	
(Dollars in thousands)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest rate swaps				
Amount of (loss) gain recognized in OCI (effective portion)	$(4,020)	3,896	(13,948)	(2,097)
Amount of loss reclassified from OCI to interest expense	(1,578)	(1,257)	(3,407)	(2,508)
Amount of loss recognized in other non-interest expense (ineffective portion)	—	—	—	—

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

	June 30, 2016			December 31, 2015		
(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Liabilities Presented in the Statements of Financial Position	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Liabilities Presented in the Statements of Financial Position
Interest rate swaps	$30,040	—	30,040	19,499	—	19,499

Pursuant to the interest rate swap agreements, the Company pledged collateral to the counterparty in the form of investment securities totaling $33,999,000 at June 30, 2016. There was $0 collateral pledged from the counterparty to the Company as of June 30, 2016. There is the possibility that the Company may need to pledge additional collateral in the future if there were declines in the fair value of the interest rate swap derivative financial instruments versus the collateral pledged.

Note 8. Other Expenses

Other expenses consists of the following:

(Dollars in thousands)	Three Months ended		Six Months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Debit card expenses	$2,252	1,533	4,101	2,885
Consulting and outside services	1,492	1,804	2,506	3,275
Telephone	983	828	1,943	1,637
Loan expenses	955	1,182	1,738	1,791
Checking and operating expenses	998	742	1,692	1,447
Printing and supplies	728	906	1,671	1,696
Postage	790	927	1,670	1,841
Employee expenses	925	661	1,504	1,157
VIE write-downs and other expenses	402	1,694	1,041	2,301
Business development	543	330	885	638
Legal fees	474	183	711	448
Accounting and audit fees	309	409	700	859
ATM expenses	263	303	518	569
Other	1,253	933	2,233	1,812
Total other expenses	$12,367	12,435	22,913	22,356

Note 9. Accumulated Other Comprehensive Income

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

(Dollars in thousands)	Gains on Available-For-Sale Securities	Losses on Derivatives Used for Cash Flow Hedges	Total
Balance at December 31, 2014	$ 27,945	(10,201)	17,744
Other comprehensive (loss) income before reclassification	(12,574)	(1,294)	(13,868)
Amounts reclassified from accumulated other comprehensive income	28	1,536	1,564
Net current period other comprehensive (loss) income	(12,546)	242	(12,304)
Balance at June 30, 2015	$ 15,399	(9,959)	5,440
Balance at December 31, 2015	$ 13,935	(11,946)	1,989
Other comprehensive income (loss) before reclassification	24,846	(8,544)	16,302
Amounts reclassified from accumulated other comprehensive income	35	2,087	2,122
Net current period other comprehensive income (loss)	24,881	(6,457)	18,424
Balance at June 30, 2016	$ 38,816	(18,403)	20,413

Note 10. Earnings Per Share

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

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

(Dollars in thousands, except per share data)	Three Months ended		Six Months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net income available to common stockholders, basic and diluted	$30,451	29,335	59,133	57,005
Average outstanding shares - basic	76,170,734	75,530,591	76,148,493	75,369,366
Add: dilutive stock options and awards	34,335	35,064	43,162	38,255
Average outstanding shares - diluted	76,205,069	75,565,655	76,191,655	75,407,621
Basic earnings per share	$0.40	0.39	0.78	0.76
Diluted earnings per share	$0.40	0.39	0.78	0.76

There were no stock options or restricted stock awards excluded from the diluted average outstanding share calculation for the six months ended June 30, 2016 and 2015, because to do so would have been anti-dilutive for those periods. Anti-dilution occurs when the exercise price of a stock option or the unrecognized compensation cost per share of a restricted stock award exceeds the market price of the Company’s stock.

Note 11. Fair Value of Assets and Liabilities

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

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

Transfers in and out of Level 1 (quoted prices in active markets), Level 2 (significant other observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date. There were no transfers between fair value hierarchy levels during the six month periods ended June 30, 2016 and 2015.

Recurring Measurements

The following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended June 30, 2016.

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

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

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

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

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Fair Value June 30, 2016	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	$ 43,386	—	43,386	—
U.S. government sponsored enterprises	46,899	—	46,899	—
State and local governments	902,789	—	902,789	—
Corporate bonds	437,093	—	437,093	—
Residential mortgage-backed securities	1,057,788	—	1,057,788	—