GLACIER BANCORP INC
Form 10-Q
November 08, 2012
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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, 2012

¨ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to __________
Commission file number 000-18911

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

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	¨	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 23, 2012 was 71,937,222. No preferred shares are issued or outstanding.

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

(Dollars in thousands, except per share data)	September 30, 2012	December 31, 2011
Assets		
Cash on hand and in banks	$98,772	104,674
Interest bearing cash deposits	73,627	23,358
Cash and cash equivalents	172,399	128,032
Investment securities, available-for-sale	3,586,355	3,126,743
Loans held for sale	118,986	95,457
Loans receivable	3,408,094	3,466,135
Allowance for loan and lease losses	(136,660)	(137,516)
Loans receivable, net	3,271,434	3,328,619
Premises and equipment, net	159,386	158,872
Other real estate owned	57,650	78,354
Accrued interest receivable	39,359	34,961
Deferred tax asset	20,462	31,081
Core deposit intangible, net	6,665	8,284
Goodwill	106,100	106,100
Non-marketable equity securities	50,363	49,694
Other assets	43,046	41,709
Total assets	$7,632,205	7,187,906
Liabilities		
Non-interest bearing deposits	$1,180,066	1,010,899
Interest bearing deposits	4,023,031	3,810,314
Securities sold under agreements to repurchase	414,836	258,643
Federal Home Loan Bank advances	917,021	1,069,046
Other borrowed funds	10,152	9,995
Subordinated debentures	125,382	125,275
Accrued interest payable	4,654	5,825
Other liabilities	66,906	47,682
Total liabilities	6,742,048	6,337,679
Stockholders' Equity		
Preferred shares, $0.01 par value per share, 1,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value per share, 117,187,500 shares authorized	719	719
Paid-in capital	641,737	642,882
Retained earnings - substantially restricted	199,845	173,139
Accumulated other comprehensive income	47,856	33,487
Total stockholders' equity	890,157	850,227
Total liabilities and stockholders' equity	$7,632,205	7,187,906
Number of common stock shares issued and outstanding	71,937,222	71,915,073

See accompanying notes to unaudited condensed consolidated financial statements.

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Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Operations

(Dollars in thousands, except per share data)	Three Months ended September 30, 2012	Three Months ended September 30, 2011	Nine Months ended September 30, 2012	Nine Months ended September 30, 2011
Interest Income				
Residential real estate loans	$7,740	7,990	23,019	24,862
Commercial loans	30,293	32,585	91,764	98,620
Consumer and other loans	8,826	10,224	26,809	30,885
Investment securities	15,156	20,634	52,499	57,001
Total interest income	62,015	71,433	194,091	211,368
Interest Expense				
Deposits	4,485	6,218	14,048	19,890
Securities sold under agreements to repurchase	395	357	997	1,033
Federal Home Loan Bank advances	3,116	3,491	9,715	9,132
Federal funds purchased and other borrowed funds	53	60	176	155
Subordinated debentures	858	1,171	2,613	4,087
Total interest expense	8,907	11,297	27,549	34,297
Net Interest Income	53,108	60,136	166,542	177,071
Provision for loan losses	2,700	17,175	19,250	55,825
Net interest income after provision for loan losses	50,408	42,961	147,292	121,246
Non-Interest Income				
Service charges and other fees	11,939	11,563	33,722	33,101
Miscellaneous loan fees and charges	1,080	973	3,139	2,878
Gain on sale of loans	8,728	5,121	23,063	14,106
Gain on sale of investments	—	813	—	346
Other income	2,227	2,466	6,179	5,751
Total non-interest income	23,974	20,936	66,103	56,182
Non-Interest Expense				
Compensation and employee benefits	24,046	21,607	71,290	64,380
Occupancy and equipment	6,001	6,027	17,794	17,709
Advertising and promotions	1,820	1,762	4,935	4,881
Outsourced data processing	801	740	2,435	2,304
Other real estate owned	6,373	7,198	15,394	14,359
Federal Deposit Insurance Corporation premiums	1,767	1,638	4,779	6,159
Core deposit intangibles amortization	532	599	1,619	1,916
Goodwill impairment charge	—	40,159	—	40,159
Other expense	8,838	8,568	27,167	25,127
Total non-interest expense	50,178	88,298	145,413	176,994
Income (Loss) Before Income Taxes	24,204	(24,401)	67,982	434
Federal and state income tax expense (benefit)	4,760	(5,353)	13,224	(2,689)
Net Income (Loss)	$19,444	(19,048)	54,758	3,123
Basic earnings (loss) per share	$0.27	(0.27)	0.76	0.04
Diluted earnings (loss) per share	$0.27	(0.27)	0.76	0.04
Dividends declared per share	$0.13	0.13	0.39	0.39
Average outstanding shares - basic	71,933,141	71,915,073	71,925,664	71,915,073
Average outstanding shares - diluted	71,973,985	71,915,073	71,925,761	71,915,073

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Three Months ended September 30, 2012	Three Months ended September 30, 2011	Nine Months ended September 30, 2012	Nine Months ended September 30, 2011
Net Income (Loss)	$19,444	(19,048)	54,758	3,123
Other Comprehensive Income, Net of Tax				
Unrealized gains on available-for-sale securities	8,733	25,498	31,965	64,680
Reclassification adjustment for gains included in net income	—	(813)	—	(346)
Net unrealized gains on securities	8,733	24,685	31,965	64,334
Tax effect	(3,398)	(9,674)	(12,435)	(25,212)
Net of tax amount	5,335	15,011	19,530	39,122
Unrealized losses on derivatives used for cash flow hedges	(2,507)	—	(8,446)	—
Tax effect	975	—	3,285	—
Net of tax amount	(1,532)	—	(5,161)	—
Total other comprehensive income, net of tax	3,803	15,011	14,369	39,122
Total Comprehensive Income (Loss)	$23,247	(4,037)	69,127	42,245

See accompanying notes to unaudited condensed consolidated financial statements.

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Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity
Nine Months ended September 30, 2012 and 2011

(Dollars in thousands, except per share data)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings Substantially Restricted	Accumulated Other Compre-hensive Income	Total
Balance at December 31, 2010	71,915,073	$719	643,894	193,063	528	838,204
Comprehensive income	—	—	—	3,123	39,122	42,245
Cash dividends declared ($0.39 per share)	—	—	—	(28,047)	—	(28,047)
Stock-based compensation and related taxes	—	—	(1,014)	—	—	(1,014)
Balance at September 30, 2011	71,915,073	$719	642,880	168,139	39,650	851,388
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

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Nine Months ended September 30, 2012	September 30, 2011
Operating Activities		
Net cash provided by operating activities	$152,956	158,495
Investing Activities		
Proceeds from sales, maturities and prepayments of investment securities, available-for-sale	1,397,533	670,810
Purchases of investment securities, available-for-sale	(1,873,893)	(1,171,083)
Principal collected on loans	706,240	678,236
Loans originated or acquired	(716,729)	(577,733)
Net addition of premises and equipment and other real estate owned	(7,896)	(13,560)
Proceeds from sale of other real estate owned	28,483	31,356
Net (purchase) sale of non-marketable equity securities	(664)	15,357
Net cash used in investment activities	(466,926)	(366,617)
Financing Activities		
Net increase in deposits	381,884	248,626
Net increase in securities sold under agreements to repurchase	156,193	52,417
Net decrease in Federal Home Loan Bank advances	(152,025)	(76,088)
Net increase in federal funds purchased and other borrowed funds	264	39,894
Cash dividends paid	(28,052)	(28,047)
Excess tax deficiencies from stock options exercised	(8)	—
Proceeds from stock options exercised	81	—
Net cash provided by financing activities	358,337	236,802
Net increase in cash and cash equivalents	44,367	28,680
Cash and cash equivalents at beginning of period	128,032	105,091
Cash and cash equivalents at end of period	$172,399	133,771
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$28,721	35,850
Cash paid during the period for income taxes	18,081	6,319
Sale and refinancing of other real estate owned	1,578	4,333
Transfer of loans to other real estate owned	21,029	64,478

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. Nature of Operations and Summary of Significant Accounting Policies

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the Company’s financial condition as of September 30, 2012, the results of operations and comprehensive income for the three and nine month periods ended September 30, 2012 and 2011, and changes in stockholders’ equity and cash flows for the nine month periods ended September 30, 2012 and 2011. The condensed consolidated statement of financial condition of the Company as of December 31, 2011 has been derived from the audited consolidated statements of the Company as of that date.

The accompanying unaudited condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. Operating results for the nine months ended September 30, 2012 are not necessarily indicative of the results anticipated for the year ending December 31, 2012.

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

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

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

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The Company owns the following trust subsidiaries, 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 consolidated into the Company's financial statements.

On April 30, 2012, the Company combined its eleven bank subsidiaries into eleven bank divisions within Glacier Bank, such divisions operating with the same names and management teams as before the combination. Prior to the combination of the bank subsidiaries, the Company considered its eleven bank subsidiaries, GORE, and the parent holding company to be its operating segments. Subsequent to the combination of the bank subsidiaries, the Company considers the Bank to be its sole operating segment. The change to combining the bank subsidiaries into a single segment is appropriate as the Bank 1) engages in similar bank business activity from which it earns revenues and incurs expenses, 2) the operating results of the Bank are regularly reviewed by the Chief Executive Officer (i.e., the chief operating decision maker) who makes decisions about resources to be allocated to the Bank, and 3) financial information is available for the Bank.

Variable Interest Entities

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

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

	September 30, 2012		December 31, 2011	
(Dollars in thousands)	CDE (NMTC)	LIHTC	CDE (NMTC)	LIHTC
Assets				
Loans receivable	$ 35,480	—	32,748	—
Premises and equipment, net	—	15,726	—	15,996
Accrued interest receivable	112	—	116	—
Other assets	1,167	143	1,439	31
Total assets	$ 36,759	15,869	34,303	16,027
Liabilities				
Other borrowed funds	$ 4,629	3,639	4,629	3,306
Accrued interest payable	3	5	4	9
Other liabilities	92	148	186	363
Total liabilities	$ 4,724	3,792	4,819	3,678

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

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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. Interest income is reported using the interest method and includes discount accretion and premium amortization on acquired loans and net loan fees on originated loans which are amortized over the expected life of the loans using a method that approximates the level-yield interest method. The Company's loan segments 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 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 troubled debt restructurings ("TDR"), 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.

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 90 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., TDR). 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 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.

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 each bank subsidiary'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.

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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 each of the bank divisions’ 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. 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.

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Impact of Recent Authoritative Accounting Guidance

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

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

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

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

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2. Investment Securities, Available-for-Sale

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

	September 30, 2012				
	Weighted	Amortized	Gross Unrealized		Fair
(Dollars in thousands)	Yield	Cost	Gains	Losses	Value
U.S. government and federal agency					
Maturing after one year through five years	1.62 %	$ 202	2	—	204
U.S. government sponsored enterprises					
Maturing after one year through five years	2.32 %	19,376	413	—	19,789
Maturing after five years through ten years	1.90 %	70	1	—	71
	2.32 %	19,446	414	—	19,860
State and local governments					
Maturing within one year	0.95 %	45,469	8	(3)	45,474
Maturing after one year through five years	2.11 %	143,651	4,652	(109)	148,194
Maturing after five years through ten years	2.83 %	43,065	1,406	(50)	44,421
Maturing after ten years	4.71 %	918,714	81,821	(746)	999,789
	4.16 %	1,150,899	87,887	(908)	1,237,878
Corporate bonds					
Maturing within one year	1.63 %	21,420	108	—	21,528
Maturing after one year through five years	2.35 %	200,106	3,355	(28)	203,433
Maturing after five years through ten years	2.30 %	18,088	437	(7)	18,518
	2.28 %	239,614	3,900	(35)	243,479
Collateralized debt obligations					
Maturing after ten years	8.03 %	2,847	—	(85)	2,762
Residential mortgage-backed securities	1.87 %	2,077,671	10,489	(5,988)	2,082,172
Total investment securities	2.66 %	$ 3,490,679	102,692	(7,016)	3,586,355

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

Included in the residential mortgage-backed securities are $49,441,000 and $49,252,000 as of September 30, 2012 and December 31, 2011, respectively, of non-guaranteed private label whole loan mortgage-backed securities of which none of the underlying collateral is considered “subprime.”

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

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

(Dollars in thousands)	Three Months ended September 30, 2012	Three Months ended September 30, 2011	Nine Months ended September 30, 2012	Nine Months ended September 30, 2011
Gross proceeds	$—	10,708	—	18,916
Less amortized cost	—	(9,895)	—	(18,570)
Net gain on sale of investments	$—	813	—	346
Gross gain on sale of investments	$—	825	—	1,048
Gross loss on sale of investments	—	(12)	—	(702)
Net gain on sale of investments	$—	813	—	346

Investments with an unrealized loss position are summarized as follows:

	September 30, 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	$98,691	(823)	5,418	(85)	104,109	(908)
Corporate bonds	13,024	(35)	—	—	13,024	(35)
Collateralized debt obligations	—	—	2,762	(85)	2,762	(85)
Residential mortgage-backed securities	844,499	(4,396)	118,764	(1,592)	963,263	(5,988)
Total temporarily impaired securities	$956,214	(5,254)	126,944	(1,762)	1,083,158	(7,016)

	December 31, 2011					
	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	$26,434	(90)	9,948	(488)	36,382	(578)
Corporate bonds	31,782	(1,264)	—	—	31,782	(1,264)
Collateralized debt obligations	—	—	5,366	(282)	5,366	(282)
Residential mortgage-backed securities	943,372	(6,850)	8,244	(333)	951,616	(7,183)
Total temporarily impaired securities	$1,001,588	(8,204)	23,558	(1,103)	1,025,146	(9,307)

With respect to the Company's review of its securities in an unrealized loss position at September 30, 2012, management determined that it did not intend to sell and there was no expected requirement to sell any of its impaired securities. Based on an analysis of its impaired securities as of September 30, 2012 and December 31, 2011, the Company determined that none of such securities had other-than-temporary impairment.

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3. Loans Receivable, Net

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

	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

	Three Months ended September 30, 2011					
(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	$ 139,795	17,412	79,885	19,615	13,625	9,258
Provision for loan losses	17,175	2,846	9,729	2,399	1,444	757
Charge-offs	(19,980)	(1,030)	(14,531)	(1,557)	(1,448)	(1,414)
Recoveries	1,103	35	607	166	225	70
Balance at end of period	$ 138,093	19,263	75,690	20,623	13,846	8,671

	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

	Nine Months ended September 30, 2011					
(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	$ 137,107	20,957	76,147	19,932	13,334	6,737
Provision for loan losses	55,825	2,143	33,426	9,006	3,859	7,391
Charge-offs	(58,298)	(4,187)	(35,850)	(8,723)	(3,751)	(5,787)
Recoveries	3,459	350	1,967	408	404	330
Balance at end of period	$ 138,093	19,263	75,690	20,623	13,846	8,671

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

	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						
Individually evaluated for impairment	$ 18,562	3,252	8,410	4,436	257	2,207
Collectively evaluated for impairment	118,098	13,997	69,345	17,793	9,727	7,236
Total allowance for loan and lease losses	$ 136,660	17,249	77,755	22,229	9,984	9,443
Loans receivable						
Individually evaluated for impairment	$ 226,440	29,945	141,717	35,672	12,054	7,052
Collectively evaluated for impairment	3,181,654	498,232	1,510,335	585,235	394,850	193,002
Total loans receivable	$ 3,408,094	528,177	1,652,052	620,907	406,904	200,054

	December 31, 2011					
(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	$ 18,828	2,659	9,756	4,233	584	1,596
Collectively evaluated for impairment	118,688	14,568	67,164	16,600	13,032	7,324
Total allowance for loan and lease losses	$ 137,516	17,227	76,920	20,833	13,616	8,920
Loans receivable						
Individually evaluated for impairment	$ 258,659	24,453	162,959	49,962	14,750	6,535
Collectively evaluated for impairment	3,207,476	492,354	1,509,100	573,906	425,819	206,297
Total loans receivable	$ 3,466,135	516,807	1,672,059	623,868	440,569	212,832

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 $1,792,000 and $3,123,000 were included in the loans receivable balance at September 30, 2012 and December 31, 2011, respectively.

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

	At or for the Three or Nine Months ended September 30, 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	$ 74,256	11,663	34,943	22,354	804	4,492
Unpaid principal balance	84,807	11,787	44,929	22,743	852	4,496
Specific valuation allowance	18,562	3,252	8,410	4,436	257	2,207
Average balance - three months	78,067	15,010	35,513	21,981	1,326	4,237
Average balance - nine months	80,131	14,163	37,807	23,030	1,398	3,733
Loans without a specific valuation allowance						
Recorded balance	$ 152,184	18,282	106,774	13,318	11,250	2,560
Unpaid principal balance	164,411	19,041	116,157	14,863	11,753	2,597
Average balance - three months	154,105	16,771	107,599	15,207	11,452	3,076
Average balance - nine months	168,387	15,411	115,520	21,569	12,562	3,325
Totals						
Recorded balance	$ 226,440	29,945	141,717	35,672	12,054	7,052
Unpaid principal balance	249,218	30,828	161,086	37,606	12,605	7,093
Specific valuation allowance	18,562	3,252	8,410	4,436	257	2,207
Average balance - three months	232,172	31,781	143,112	37,188	12,778	7,313
Average balance - nine months	248,518	29,574	153,327	44,599	13,960	7,058

	At or for the Year ended December 31, 2011					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$ 77,717	11,111	39,971	22,087	1,219	3,329
Unpaid principal balance	85,514	11,177	47,569	22,196	1,238	3,334
Specific valuation allowance	18,828	2,659	9,756	4,233	584	1,596
Average balance	66,871	10,330	38,805	13,395	1,284	3,057
Loans without a specific valuation allowance						
Recorded balance	$ 180,942	13,342	122,988	27,875	13,531	3,206
Unpaid principal balance	208,828	14,741	139,962	35,174	15,097	3,854
Average balance	168,983	14,730	123,231	19,963	8,975	2,084
Totals						
Recorded balance	$ 258,659	24,453	162,959	49,962	14,750	6,535
Unpaid principal balance	294,342	25,918	187,531	57,370	16,335	7,188
Specific valuation allowance	18,828	2,659	9,756	4,233	584	1,596
Average balance	235,854	25,060	162,036	33,358	10,259	5,141

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Interest income recognized on impaired loans for the periods ended September 30, 2012 and December 31, 2011 was not significant.

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

	September 30, 2012					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$ 19,937	663	11,959	3,828	2,441	1,046
Accruing loans 60-89 days past due	8,497	1,150	3,946	984	1,721	696
Accruing loans 90 days or more past due	3,271	551	787	1,301	356	276
Non-accrual loans	115,856	18,941	71,721	14,178	7,738	3,278
Total past due and non-accrual loans	147,561	21,305	88,413	20,291	12,256	5,296
Current loans receivable	3,260,533	506,872	1,563,639	600,616	394,648	194,758
Total loans receivable	$ 3,408,094	528,177	1,652,052	620,907	406,904	200,054

	December 31, 2011					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Accruing loans 30-59 days past due	$ 31,386	9,038	12,683	3,279	4,092	2,294
Accruing loans 60-89 days past due	17,700	2,678	11,660	1,034	1,276	1,052
Accruing loans 90 days or more past due	1,413	59	108	1,060	156	30
Non-accrual loans	133,689	11,881	87,956	21,685	10,272	1,895
Total past due and non-accrual loans	184,188	23,656	112,407	27,058	15,796	5,271
Current loans receivable	3,281,947	493,151	1,559,652	596,810	424,773	207,561
Total loans receivable	$ 3,466,135	516,807	1,672,059	623,868	440,569	212,832

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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, 2012					
(Dollars in thousands)	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	—

	Nine Months ended September 30, 2012					
(Dollars in thousands)	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

The majority of TDRs occurring in most loan classes was a result of an extension of the maturity date which aggregated 56 percent of total TDRs. For commercial real estate, the class with the largest dollar amount of TDRs, approximately 44 percent was a result of an extension of the maturity date and 24 percent 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 $30,261,000 for the nine months ended September 30, 2012, for which other real estate owned was received in full or partial satisfaction of the loans. The majority of such TDRs was in residential real estate.

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4. Goodwill

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

(Dollars in thousands)	Three Months ended September 30, 2012	Three Months ended September 30, 2011	Nine Months ended September 30, 2012	Nine Months ended September 30, 2011
Net carrying value at beginning of period	$ 106,100	146,259	106,100	146,259
Impairment charge	—	(40,159)	—	(40,159)
Net carrying value at end of period	106,100	106,100	106,100	106,100

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

(Dollars in thousands)	September 30, 2012	December 31, 2011
Gross carrying value	146,259	146,259
Accumulated impairment charge	(40,159)	(40,159)
Net carrying value	$ 106,100	106,100

Prior to April 30, 2012, the Company had eleven bank subsidiary reporting units, each of which had a goodwill impairment assessment. On April 30, 2012, the Company combined its eleven bank subsidiaries into a single commercial bank and the eleven bank division reporting units are now aggregated for assessment of goodwill impairment. The Company has identified that the divisions are components of the Glacier Bank operating segment since there are segment managers of the divisions; however, the components can be aggregated due to the components having similar economic characteristics.

The Company performed its annual goodwill impairment test during the third quarter of 2012 and determined the fair value of the aggregated reporting units exceeded the carrying value, such that the Company's goodwill was not considered impaired. Due to high levels of volatility and dislocation in prices of shares of publicly-held, exchange listed banking companies in 2011, a goodwill impairment charge was recognized by the Company during the third quarter of 2011.

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5. Derivatives and Hedging Activities

The Company’s interest rate derivative financial instruments as of September 30, 2012 are as follows:

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

[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 derivative financial instruments:

(Dollars in thousands)	Balance Sheet Location	Fair Value September 30, 2012	December 31, 2011
Interest rate swap	Other liabilities	$ 17,352	8,906

Pursuant to the interest rate swap agreements, the Company pledged collateral to the counterparties in the form of investment securities totaling $21,942,000 at September 30, 2012. There was $0 collateral pledged from the counterparties to the Company as of September 30, 2012. 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.

6. Accumulated Other Comprehensive Income

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

(Dollars in thousands)	September 30, 2012	December 31, 2011
Unrealized gains on available-for-sale securities	$ 95,676	63,711
Tax effect	(37,218)	(24,783)
Net of tax amount	58,458	38,928
Unrealized losses on derivatives used for cash flow hedges	(17,352)	(8,906)
Tax effect	6,750	3,465
Net of tax amount	(10,602)	(5,441)
Total accumulated other comprehensive income	$ 47,856	33,487

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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, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net income (loss) available to common stockholders, basic and diluted	$ 19,444	(19,048)	54,758	3,123
Average outstanding shares - basic	71,933,141	71,915,073	71,925,664	71,915,073
Add: dilutive stock options and awards	40,844	—	97	—
Average outstanding shares - diluted	71,973,985	71,915,073	71,925,761	71,915,073
Basic earnings (loss) per share	$ 0.27	(0.27)	0.76	0.04
Diluted earnings (loss) per share	$ 0.27	(0.27)	0.76	0.04

There were 903,945 and 1,597,959 options excluded from the diluted average outstanding share calculation for the nine months ended September 30, 2012 and 2011, respectively, due to the option exercise price exceeding the market price of the Company's common stock.

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

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, 2012.

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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 on a monthly basis. The Company reviews the vendors' inputs for fair value estimates and the recommended assignments of levels within the fair value hierarchy. The review includes the extent to which markets for investment securities are determined to have limited or no activity, or are judged to be active markets. The Company reviews the extent to which observable and unobservable inputs are used as well as the appropriateness of the underlying assumptions about risk that a market participant would use in active markets, with adjustments for limited or inactive markets. In considering the inputs to the fair value estimates, the Company places less reliance on quotes that are judged to not reflect orderly transactions, or are non-binding indications. 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 agreements: fair values for interest rate swap derivative agreements 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.

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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, 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	$ 204	—	204	—
U.S. government sponsored enterprises	19,860	—	19,860	—
State and local governments	1,237,878	—	1,237,878	—
Corporate bonds	243,479	—	243,479	—
Collateralized debt obligations	2,762	—	2,762	—
Residential mortgage-backed securities	2,082,172	—	2,082,172	—
Total assets measured at fair value on a recurring basis	$ 3,586,355	—	3,586,355	—
Interest rate swaps	$ 17,352	—	17,352	—
Total liabilities measured at fair value on a recurring basis	$ 17,352	—	17,352	—

(Dollars in thousands)	Fair Value December 31, 2011	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	$ 208	—	208	—
U.S. government sponsored enterprises	31,155	—	31,155	—
State and local governments	1,064,655	—	1,064,655	—
Corporate bonds	62,237	—	62,237	—
Collateralized debt obligations	5,366	—	5,366	—
Residential mortgage-backed securities	1,963,122	—	1,963,122	—
Total assets measured at fair value on a recurring basis	$ 3,126,743	—	3,126,743	—
Interest rate swaps	$ 8,906	—	8,906	—
Total liabilities measured at fair value on a recurring basis	$ 8,906	—	8,906	—

Level 3 Reconciliation
There were no Level 3 fair value measurements during the nine month period ended September 30, 2012.

The following schedule reconciles the opening and closing balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period ended September 30, 2011:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
		Investment Securities	
(Dollars in thousands)	Total	Collateralized Debt Obligations	Residential Mortgage-backed Securities
Balance at December 31, 2010	$6,751	6,595	156
Total unrealized gains (losses) for the period included in other comprehensive income	2,011	2,095	(84)
Amortization, accretion and principal payments	(2,240)	(2,240)	—
Balance at September 30, 2011	$6,522	6,450	72

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, 2012.

Other real estate owned (“OREO”): 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 other real estate owned is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Collateral-dependent impaired loans, net of ALLL: loans included in the Company’s financials 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 Company also considers other factors and events in the environment that may affect the fair value. The fair values are reduced by discounts to consider lack of marketability and estimated cost to sell. 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.

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Goodwill: Prior to April 30, 2012, goodwill was evaluated for impairment at the bank subsidiary level at least annually. On April 30, 2012, the Company combined its eleven bank subsidiaries into a single commercial bank and the eleven bank division reporting units are now aggregated for assessment of goodwill impairment. The key inputs used to determine the implied fair value during the first step of the 2012 goodwill impairment analysis included deal prices of comparable transactions and applied premiums and discounts that took into account the aggregated reporting units' earnings and credit metrics. The key inputs used to determine the implied fair value during the 2011 two-step goodwill impairment analysis and the corresponding amount of the impairment charge included quoted market prices of other banks, discounted cash flows and inputs from comparable transactions. These inputs are classified within Level 3 of the fair value hierarchy. The goodwill impairment evaluation is the responsibility of the Company's corporate accounting department. Valuations and significant inputs obtained by independent sources are reviewed by the Company for accuracy and reasonableness. For additional information regarding goodwill and reporting unit(s), see Note 4.

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, 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	$ 22,330	—	—	22,330
Collateral-dependent impaired loans, net of ALLL	46,241	—	—	46,241
Total assets measured at fair value on a non-recurring basis	$ 68,571	—	—	68,571

		Fair Value Measurements At the End of the Reporting Period Using		
(Dollars in thousands)	Fair Value December 31, 2011	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	$ 38,076	—	—	38,076
Collateral-dependent impaired loans, net of ALLL	55,339	—	—	55,339
Goodwill	24,718	—	—	24,718
Total assets measured at fair value on a non-recurring basis	$ 118,133	—	—	118,133

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 due to the insignificant time between origination date and sale date.

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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 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. These 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 through 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.

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

(Dollars in thousands)	Carrying Amount September 30, 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	$ 172,399	172,399	—	—
Investment securities, available-for-sale	3,586,355	—	3,586,355	—
Loans held for sale	118,986	118,986	—	—
Loans receivable, net of ALLL	3,271,434	—	3,150,882	207,878
Accrued interest receivable	39,359	39,359	—	—
Non-marketable equity securities	50,363	—	50,363	—
Total financial assets	$ 7,238,896	330,744	6,787,600	207,878
Financial liabilities				
Deposits	$ 5,203,097	3,420,961	1,790,276	—
FHLB advances	917,021	—	949,696	—
Repurchase agreements and other borrowed funds	424,988	—	424,988	—
Subordinated debentures	125,382	—	—	68,957
Accrued interest payable	4,654	4,654	—	—
Interest rate swaps	17,352	—	17,352	—
Total financial liabilities	$ 6,692,494	3,425,615	3,182,312	68,957

(Dollars in thousands)	Carrying Amount December 31, 2011	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	$ 128,032	128,032	—	—
Investment securities, available-for-sale	3,126,743	—	3,126,743	—
Loans held for sale	95,457	95,457	—	—
Loans receivable, net of ALLL	3,328,619	—	3,146,502	239,831
Accrued interest receivable	34,961	34,961	—	—
Non-marketable equity securities	49,694	—	49,694	—
Total financial assets	$ 6,763,506	258,450	6,322,939	239,831
Financial liabilities				
Deposits	$ 4,821,213	3,132,261	1,698,382	—
FHLB advances	1,069,046	—	1,099,699	—
Repurchase agreements and other borrowed funds	268,638	—	268,642	—
Subordinated debentures	125,275	—	—	65,903
Accrued interest payable	5,825	5,825	—	—

Interest rate swaps	8,906	—	8,906	—
Total financial liabilities	$ 6,298,903	3,138,086	3,075,629	65,903

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

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, 2011 (the “2011 Annual Report”), the following factors, among others, could cause actual results to differ materially from the anticipated results:

- local and national economic conditions could be less favorable than expected or could have a more direct and pronounced effect on the Company than expected;
- 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 declines in the housing and real estate markets in its geographic areas;
- increased loan delinquency rates;
- the risks presented by a continued economic downturn, 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;
- changes in accounting principles, policies and guidelines applicable to banking;
- costs or difficulties related to the integration of acquisitions;
- the goodwill the Company has recorded in connection with acquisitions could become additionally impaired, which may have an adverse impact on our 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 our common stock and our ability to raise additional capital in the future;
- competition from other financial services companies in our markets;
- loss of services from the senior management team; and
- the Company’s success in managing risks involved in the foregoing.

Please take into account that the forward-looking statements only apply as of the date of this report or documents incorporated by reference herein. 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.

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Non-GAAP Financial Measures

In addition to the results presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), this Form 10-Q contains certain non-GAAP financial measures. The Company believes that providing these non-GAAP financial measures provides investors with information useful in understanding the Company's financial performance, performance trends, and financial position. While the Company uses these non-GAAP measures in its analysis of the Company's performance, this information should not be considered an alternative to measurements required by GAAP.

The preceding results summary table provides a reconciliation of certain GAAP financial measures to non-GAAP financial measures. The reconciling item between the GAAP and non-GAAP financial measures was the prior year third quarter goodwill impairment charge (net of tax) of $32.6 million.

- The goodwill impairment charge was $40.2 million with a tax benefit of $7.6 million which resulted in a goodwill impairment charge (net of tax) of $32.6 million. The tax benefit applied only to the $19.4 million of goodwill associated with taxable acquisitions and was determined based on the Company's marginal income tax rate of 38.9 percent.
- The diluted earnings per share reconciling item was determined based on the goodwill impairment charge (net of tax) divided by the weighted average diluted shares of 71,915,073.
- The goodwill impairment charge (net of tax) was included but not annualized in determining annualized earnings for both the GAAP return on average assets and GAAP return on average equity. The average assets used in the GAAP and non-GAAP return on average assets ratios were $6.996 billion and $6.854 billion for the three and nine month periods, respectively. The average equity used in the GAAP and non-GAAP return on average equity ratios were $877 million and $860 million for the three and nine month periods, respectively.

Financial Condition Analysis

Assets

The following table summarizes the asset balances as of the dates indicated, and the amount of change from December 31, 2011 and September 30, 2011:

(Dollars in thousands)	September 30, 2012	December 31, 2011	September 30, 2011	$ Change from December 31, 2011	$ Change from September 30, 2011
Cash and cash equivalents	$ 172,399	128,032	133,771	44,367	38,628
Investment securities, available-for-sale	3,586,355	3,126,743	2,935,011	459,612	651,344
Loans receivable					
Residential real estate	528,177	516,807	518,786	11,370	9,391
Commercial	2,272,959	2,295,927	2,336,744	(22,968)	(63,785)
Consumer and other	606,958	653,401	668,052	(46,443)	(61,094)
Loans receivable	3,408,094	3,466,135	3,523,582	(58,041)	(115,488)
Allowance for loan and lease losses	(136,660)	(137,516)	(138,093)	856	1,433
Loans receivable, net	3,271,434	3,328,619	3,385,489	(57,185)	(114,055)
Other assets	602,017	604,512	588,418	(2,495)	13,599
Total assets	$ 7,632,205	7,187,906	7,042,689	444,299	589,516

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Investment securities increased $182 million, or 5 percent, during the current quarter and increased $651 million, or 22 percent, from September 30, 2011. The Company continues to purchase investment securities to primarily offset the lack of loan growth and to maintain interest income. The increase in investment securities for the current quarter occurred in U.S. Agency collateralized mortgage obligation ("CMO"), corporate and municipal bonds. The majority of the purchases were short weighted-average life CMOs which were significantly offset by CMO principal paydowns during the quarter. Investment securities represent 47 percent of total assets at September 30, 2012 versus 44 percent at December 31, 2011 and 42 percent at September 30, 2011.

The continued uncertainty in the sluggish economy and low levels of loan demand continue to put pressure on the Company and was the primary cause of the decrease in the loan portfolio. The loan portfolio decreased during the current quarter by $37.1 million, or 1 percent, to a total of $3.408 billion at September 30, 2012. The largest decrease in dollars during the current quarter was in commercial loans which decreased $20.9 million, or 1 percent, from June 30, 2012. The largest decrease by percentage during the current quarter was in consumer and other loans which decreased $18.8 million, or 3 percent, from June 30, 2012. The decrease in consumer and other loans was primarily attributable to the reduction in consumer land and lot loans in combination with customers paying down lines of credit and reducing other debt. During the past nine months, the loan portfolio decreased $58 million, or 2 percent, from total loans of $3.466 billion at December 31, 2011. Excluding net charge-offs of $20.1 million and loans of $21.0 million transferred to other real estate owned, loans decreased $16.9 million, or 1 percent annualized, during the past nine months. The Company continues to reduce its exposure to land, lot and other construction loans which totaled $333 million as of September 30, 2012, a decrease of $69 million, or 17 percent, since the prior year third quarter.

Liabilities

The following table summarizes the liability balances as of the dates indicated, and the amount of change from December 31, 2011 and September 30, 2011:

(Dollars in thousands)	September 30, 2012	December 31, 2011	September 30, 2011	$ Change from December 31, 2011	$ Change from September 30, 2011
Non-interest bearing deposits	$ 1,180,066	1,010,899	996,265	169,167	183,801
Interest bearing deposits	4,023,031	3,810,314	3,774,263	212,717	248,768
Federal funds purchased	—	—	45,000	—	(45,000)
Repurchase agreements	414,836	258,643	301,820	156,193	113,016
FHLB advances	917,021	1,069,046	889,053	(152,025)	27,968
Other borrowed funds	10,152	9,995	14,792	157	(4,640)
Subordinated debentures	125,382	125,275	125,239	107	143
Other liabilities	71,560	53,507	44,869	18,053	26,691
Total liabilities	$ 6,742,048	6,337,679	6,191,301	404,369	550,747

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Another beneficial trend for the Company has been the increase in deposits over the past several years which has allowed the Company to fund the increase in the investment securities portfolio at lower funding costs. The increase in deposits during the first nine months of 2012 and throughout 2011 has been driven by the Company's success in generating new personal and business customer relationships, as well as existing customers retaining cash deposits for liquidity purposes due to the continued uncertainty in the current economic environment. At September 30, 2012, non-interest bearing deposits of $1.180 billion increased $113 million, or 11 percent, since June 30, 2012 and increased $184 million, or 18 percent, since September 30, 2011. Interest bearing deposits of $4.023 billion at September 30, 2012 included $744 million of wholesale deposits of which $167 million were reciprocal deposits (e.g., Certificate of Deposit Account Registry System deposits). In addition to reciprocal deposits, wholesale deposits include brokered deposits classified as NOW, money market deposit and certificate accounts. Interest bearing deposits increased $107 million, or 3 percent, since June 30, 2012 and included an increase of $99.0 million in wholesale deposits. Interest bearing deposits increased $249 million, or 7 percent, from September 30, 2011 and included a increase of $97.4 million in wholesale deposits.

The Company's level and mix of borrowings has fluctuated as needed to supplement deposit growth and to fund the growth in investment securities. Federal Home Loan Bank ("FHLB") advances decreased $152 million from the prior year and have increased $28.0 million since the prior year third quarter. The increase in funding through repurchase agreements from the prior year end and the prior year third quarter was primarily due to the $116 million in wholesale repurchase agreements as of current quarter end compared to no wholesale repurchase agreements as of year end and only $40.0 million of wholesale repurchase agreements as of the prior year third quarter end. The wholesale repurchase agreements were utilized as a source of low cost alternative funding.

Stockholders’ Equity

The following table summarizes the stockholders’ equity balances as of the dates indicated, and the amount of change from December 31, 2011 and September 30, 2011:

(Dollars in thousands, except per share data)	September 30, 2012	December 31, 2011	September 30, 2011	$ Change from December 31, 2011	$ Change from September 30, 2011
Common equity	$ 842,301	816,740	811,738	25,561	30,563
Accumulated other comprehensive income	47,856	33,487	39,650	14,369	8,206
Total stockholders’ equity	890,157	850,227	851,388	39,930	38,769
Goodwill and core deposit intangible, net	(112,765)	(114,384)	(114,941)	1,619	2,176
Tangible stockholders’ equity	$ 777,392	735,843	736,447	41,549	40,945
Stockholders’ equity to total assets	11.66 %	11.83 %	12.09 %		
Tangible stockholders’ equity to total tangible assets	10.34 %	10.40 %	10.63 %		
Book value per common share	$ 12.37	11.82	11.84	0.55	0.53
Tangible book value per common share	$ 10.81	10.23	10.24	0.58	0.57
Market price per share at end of period	$ 15.59	12.03	9.37	3.56	6.22

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Tangible stockholders' equity and tangible book value per share increased $41.5 million and $0.58 per share from the prior year end, resulting in tangible stockholders' equity to tangible assets of 10.34 percent and tangible book value per share of $10.81 as of September 30, 2012. The increases came from earnings retention and an increase in accumulated other comprehensive income.

On September 26, 2012, the Company's Board of Directors declared a cash dividend of $0.13 per share, payable October 18, 2012 to shareholders of record on October 9, 2012. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations.

Results of Operations – The Three Months ended September 30, 2012
Compared to the Three Months ended June 30, 2012 and September 30, 2011

Performance Summary

	Three Months ended		
(Dollars in thousands, except per share data)	September 30, 2012	June 30, 2012	September 30, 2011
Net income (loss) (GAAP)	$ 19,444	18,981	(19,048)
Add goodwill impairment charge, net of tax	—	—	32,613
Operating net income (non-GAAP)	$ 19,444	18,981	13,565
Diluted earnings (loss) per share (GAAP)	$ 0.27	0.26	(0.27)
Add goodwill impairment charge, net of tax	—	—	0.46
Diluted earnings per share (non-GAAP)	$ 0.27	0.26	0.19
Return on average assets (annualized) (GAAP)	1.03 %	1.04 %	(1.08)%
Add goodwill impairment charge, net of tax	— %	— %	1.85 %
Return on average assets (annualized) (non-GAAP)	1.03 %	1.04 %	0.77 %
Return on average equity (annualized) (GAAP)	8.68 %	8.69 %	(8.61)%
Add goodwill impairment charge, net of tax	— %	— %	14.74 %
Return on average equity (annualized) (non-GAAP)	8.68 %	8.69 %	6.13 %

The Company reported net income for the current quarter of $19.4 million, an increase of $5.9 million, or 43 percent, compared to $13.6 million of operating net income (net income excluding goodwill impairment charge) for the prior year third quarter. Net operating income is considered a non-GAAP financial measure and additional information regarding this measurement and reconciliation is provided herein. Diluted earnings per share for the current quarter was $0.27 per share, an increase of $0.08, or 42 percent, from the prior year third quarter diluted earnings per share of $0.19.

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Revenue Summary

The following tables summarize revenue for the periods indicated, including the amount and percentage change from June 30, 2012 and September 30, 2011:

(Dollars in thousands)	Three Months ended September 30, 2012