GLACIER BANCORP INC
Form 10-K
February 25, 2016

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015 or
¨ 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)
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value per share	NASDAQ Global Select Market
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: NONE
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes ý No
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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. ý Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

(Do not check if a smaller reporting
company)

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

The aggregate market value of the voting common equity held by non-affiliates of the Registrant at June 30, 2015 (the last business day of the most recent second quarter), was $2,194,320,679 (based on the average bid and ask price as quoted on the NASDAQ Global Select Market at the close of business on that date).

The number of shares of Registrant’s common stock outstanding on February 3, 2016 was 76,086,288. No preferred shares are issued or outstanding.

Document Incorporated by Reference

Portions of the 2016 Annual Meeting Proxy Statement dated on or about March 17, 2016 are incorporated by reference into Parts I and III of this Form 10-K.

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ABBREVIATIONS/ACRONYMS

AFS – available-for-sale investment securities
ALCO – Asset Liability Committee
ALLL or allowance – allowance for loan and lease losses
ASC – Accounting Standards Codification™
Bank – Glacier Bank
Basel I – Capital Accord of the Basel Committee on Banking Supervision
Basel III – third installment of the Basel Accords
BHCA – Bank Holding Company Act of 1956, as amended
Board – Glacier Bancorp, Inc.'s Board of Directors
bp or bps – basis point(s)
Cañon – Cañon Bank Corporation and its subsidiary, Cañon National Bank
CB – Montana Community Banks, Inc. and its subsidiary, Community Bank, Inc.
CDE – Certified Development Entity
CDFI Fund – Community Development Financial Institutions Fund
CEO – Chief Executive Officer
CFO – Chief Financial Officer
CFPB – Consumer Financial Protection Bureau
Company – Glacier Bancorp, Inc.
COSO – Committee of Sponsoring Organizations of the Treadway Commission
CRA – Community Reinvestment Act of 1977
DIF – federal Deposit Insurance Fund
DFAST – Dodd-Frank Act stress test
Dodd-Frank Act – Dodd-Frank Wall Street Reform and Consumer Protection Act
EVE – economic value of equity
Fannie Mae – Federal National Mortgage Association
FASB – Financial Accounting Standards Board
FDIC – Federal Deposit Insurance Corporation
FHLB – Federal Home Loan Bank
Final Rules – final rules implemented by the federal banking agencies that amended regulatory risk-based capital rules
FNBR – FNBR Holding Corporation and its subsidiary, First National Bank of the Rockies
FRB – Federal Reserve Bank
HMDA – Home Mortgage Disclosure Act
HTM – held-to-maturity investment securities
Interstate Act – Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994
IRS – Internal Revenue Service
LIBOR – London Interbank Offered Rate
LIHTC – Low Income Housing Tax Credit
NII – net interest income
NMTC – New Markets Tax Credits
NOW – negotiable order of withdrawal
NRSRO – Nationally Recognized Statistical Rating Organizations
OCI – other comprehensive income
OREO – other real estate owned
Patriot Act – Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001
Proxy Statement – the 2016 Annual Meeting Proxy Statement
Repurchase agreements – securities sold under agreements to repurchase
S&P – Standard and Poor's
SEC – United States Securities and Exchange Commission
SERP – Supplemental Executive Retirement Plan
SOX Act – Sarbanes-Oxley Act of 2002
TDR – troubled debt restructuring
VIE – variable interest entity

Freddie Mac – Federal Home Loan Mortgage Corporation
GAAP – accounting principles generally accepted in the United States of America
Ginnie Mae – Government National Mortgage Association
GLB Act – Gramm-Leach-Bliley Financial Services Modernization Act of 1999
GORE – GBCI Other Real Estate Owned

PART I

Item 1. Business

Glacier Bancorp, Inc. ("Company"), headquartered in Kalispell, Montana, is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation originally incorporated in 1990. The Company is a publicly-traded company and its common stock trades on the NASDAQ Global Select Market under the symbol GBCI. The Company provides commercial banking services from 144 locations 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. For information regarding the Company's lending, investment and funding activities, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Subsidiaries

The Company includes the parent holding company and nine wholly-owned subsidiaries which consist of the Bank and eight non-bank subsidiaries. The eight non-bank subsidiaries include GBCI Other Real Estate Owned ("GORE") and seven trust subsidiaries. The Company formed GORE to isolate certain foreclosed properties for administrative purposes and the remaining properties are currently held for sale. GORE is included in the Bank operating segment due to its insignificant activity. The Company owns the following trust subsidiaries, each of which issued trust preferred securities as Tier 1 capital instruments: Glacier Capital Trust II, Glacier Capital Trust III, Glacier Capital Trust IV, Citizens (ID) Statutory Trust I, Bank of the San Juans Bancorporation Trust I, First Company Statutory Trust 2001, and First Company Statutory Trust 2003. The trust subsidiaries are not included in the Company's consolidated financial statements. As of December 31, 2015, the Company and its subsidiaries were not engaged in any operations in foreign countries.

The Bank consists of thirteen bank divisions, a treasury division and an information technology division. The Bank divisions include the following: Glacier Bank, Kalispell; First Security Bank of Missoula; Valley Bank of Helena; Big Sky Western Bank, Bozeman; Western Security Bank, Billings; and First Bank of Montana, Lewistown, all operating in Montana; as well as Mountain West Bank, Coeur d'Alene operating in Idaho, Utah and Washington; Citizens Community Bank, Pocatello, operating in Idaho; 1st Bank, Evanston, operating in Wyoming and Utah; First Bank of Wyoming, Powell and First State Bank, Wheatland, each operating in Wyoming; North Cascades Bank, Chelan, operating in Washington; and Bank of the San Juans, Durango, operating in Colorado. The treasury division includes the Bank's investment portfolio and wholesale borrowings and the information technology division includes the Bank's internal data processing and information technology expenses. Each of the Bank divisions operate under separate names, management teams and directors. The Company considers the Bank to be its sole operating segment.

The Company provides full service brokerage services (selling products such as stocks, bonds, mutual funds, limited partnerships, annuities and other insurance products) through Raymond James Financial Services, a non-affiliated company. The Company shares in the commissions generated, without devoting significant employee time to this portion of the business.

Recent Acquisitions

The Company's strategy is to profitably grow its business through internal growth and selective acquisitions. The Company continues to look for profitable expansion opportunities in existing markets and new markets in the Rocky Mountain states. During the last five years, the Company has completed the following acquisitions:

- Cañon Bank Corporation and its subsidiary, Cañon National Bank, on October 31, 2015 (collectively, "Cañon");
- Montana Community Banks, Inc. and its subsidiary, Community Bank, on February 28, 2015 (collectively, "CB");

- FNBR Holding Corporation and its subsidiary, First National Bank of the Rockies, on August 31, 2014 (collectively, "FNBR");
- North Cascades Bancshares, Inc. and its subsidiary, North Cascades National Bank, on July 31, 2013; and
- Wheatland Bankshares, Inc. and its subsidiary, First State Bank, on May 31, 2013.

Market Area

The Company and the Bank have 144 locations, of which 9 are loan or administration offices, in 48 counties within 6 states including Montana, Idaho, Wyoming, Colorado, Utah, and Washington. The Company and the Bank have 59 locations in Montana, 28 locations in Idaho, 17 locations in Wyoming, 23 locations in Colorado, 4 locations in Utah and 13 locations in Washington.

The market area's economic base primarily focuses on tourism, construction, mining, energy, manufacturing, agriculture, service industry, and health care. The tourism industry is highly influenced by national parks, ski resorts, significant lakes and rural scenic areas.

Competition

Commercial banking is a highly competitive business and operates in a rapidly changing environment. There are a large number of depository institutions including savings and loans, commercial banks, and credit unions in the markets in which the Company has offices. Competition is also increasing for deposit and lending services from internet-based competitors. Non-depository financial service institutions, primarily in the securities, insurance and retail industries, have also become competitors for retail savings, investment funds and lending activities. In addition to offering competitive interest rates, the principal methods used by the Bank to attract deposits include the offering of a variety of services including on-line banking, mobile banking and convenient office locations and business hours. The primary factors in competing for loans are interest rates and rate adjustment provisions, loan maturities, loan fees, and the quality of service to borrowers and brokers.

Based on the Federal Deposit Insurance Corporation ("FDIC") summary of deposits survey as of June 30, 2015, the Bank has approximately 24 percent of the total FDIC insured deposits in the 13 counties that it services in Montana. In Idaho, the Bank has approximately 7 percent of the deposits in the 9 counties that it services. In Wyoming, the Bank has 26 percent of the deposits in the 8 counties it services. In Colorado, the Bank has 5 percent of the deposits in the 9 counties it services. In Utah, the Bank has 11 percent of the deposits in the 3 counties it services. In Washington, the Bank has 4 percent of the deposits in the 6 counties it services.

Employees

As of December 31, 2015, the Company and the Bank employed 2,245 persons, 2,021 of whom were employed full time and none of whom were represented by a collective bargaining group. The Company and the Bank provide their employees with a comprehensive benefit program, including health, dental and vision insurance, life and accident insurance, long-term disability coverage, vacation and sick leave, 401(k) plan, profit sharing plan and a stock-based compensation plan. The Company considers its employee relations to be excellent. See Note 13 in the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" for detailed information regarding employee benefit plans and eligibility requirements.

Board of Directors and Committees

The Company's Board of Directors ("Board") has the ultimate authority and responsibility for overseeing risk management at the Company. Some aspects of risk oversight are fulfilled at the Board level, and the Board delegates other aspects of its risk oversight function to its committees. The Board has established, among others, an Audit Committee, a Compensation Committee, a Nominating/Corporate Governance Committee, a Compliance Committee, and a Risk Oversight Committee. Additional information regarding Board committees is set forth under the heading "Meetings and Committees of the Board of Directors - Committee Membership" in the Company's 2016 Annual Meeting Proxy Statement and is incorporated herein by reference.

Website Access

Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the Company's website (www.glacierbancorp.com) as soon as reasonably practicable after the Company has filed the material with, or furnished it to, the United States Securities and Exchange Commission ("SEC"). Copies can also be obtained by accessing the SEC's website (www.sec.gov).

Supervision and Regulation

The following discussion provides an overview of certain elements of the extensive regulatory framework applicable to the Company and the Bank. This regulatory framework is primarily designed for the protection of depositors, the DIF and the banking system as a whole, rather than specifically for the protection of shareholders. Due to the breadth and growth of this regulatory framework, the costs of compliance continue to increase in order to monitor and satisfy these requirements.

To the extent this section describes statutory and regulatory provisions, it does not purport to be complete and is qualified by reference to those provisions. These statutes and regulations, as well as related policies, continue to be subject to change by Congress, state legislatures and federal and state regulators. Changes in statutes, regulations or regulatory policies applicable to the Company, including the interpretation or implementation thereof cannot be predicted and could have a material effect on the Company’s business or operations. Numerous changes to the statutes, regulations or regulatory policies applicable to the Company have been made or proposed in recent years. Continued efforts to monitor and comply with new regulatory requirements add to the complexity and cost of the Company’s business.

The Company is subject to regulation and supervision by the Federal Reserve and regulation by the State of Montana as a Montana corporation. The Company is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the Securities and Exchange Commission. The Bank is subject to regulation and supervision by the Montana Department of Administration's Banking and Financial Institutions Division, the FDIC, and, with respect to branches of the Bank outside of Montana, applicable state regulators.

Federal Bank Holding Company Regulation

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended ("BHCA"), due to its ownership of the Bank. As a bank holding company, the Company is subject to regulation, supervision and examination by the Federal Reserve. In general, the BHCA limits the business of bank holding companies to owning or controlling banks and engaging in other activities closely related to banking. The Company must also file reports with and provide additional information to the Federal Reserve.

Holding Company Bank Ownership. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before 1) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5 percent of such shares; 2) acquiring all or substantially all of the assets of another bank or bank holding company; or 3) merging or consolidating with another bank holding company.

Holding Company Control of Non-banks. With some exceptions, the BHCA also prohibits a bank holding company from acquiring or retaining direct or indirect ownership or control of more than 5 percent of the voting shares of any company that is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities that, by federal statute, agency regulation or order, have been identified as activities closely related to the business of banking or of managing or controlling banks.

Transactions with Affiliates. Bank subsidiaries of a bank holding company are subject to restrictions imposed by the Federal Reserve Act on extensions of credit to the holding company or its subsidiaries, on investments in securities, and on the use of securities as collateral for loans to any borrower. The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") further extended the definition of an "affiliate" and treats credit exposure arising from derivative transactions, securities lending and borrowing transactions as a covered transaction under the regulations. It also expands the scope of covered transactions required to be collateralized, requires collateral to be maintained at all times for covered transactions required to be collateralized, and places limits on acceptable collateral. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for payment of dividends, interest and operational expenses.

Tying Arrangements. The Company is prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Company nor the Bank may condition an extension of credit to a customer on either 1) a requirement that the customer obtain additional services provided by the Company or the Bank or 2) an agreement by the customer to refrain from obtaining other services from a competitor.

Support of Bank Subsidiaries. Under Federal Reserve policy and the Dodd-Frank Act, the Company is expected to act as a source of financial and managerial strength to the Bank. This means that the Company is required to commit, as necessary, capital and resources to support the Bank. Any capital loans a bank holding company makes to its bank subsidiaries are subordinate to deposits and to certain other indebtedness of the bank subsidiaries.

State Law Restrictions. As a Montana corporation, the Company is subject to certain limitations and restrictions under applicable Montana corporate law. For example, state law restrictions in Montana include limitations and restrictions relating to indemnification of directors, distributions to shareholders, transactions involving directors, officers or interested shareholders, maintenance of books, records and minutes, and observance of certain corporate formalities.

Federal and State Regulation of the Bank

General. Deposits in the Bank, a Montana state-chartered bank with branches in Montana, Colorado, Idaho, Utah, Washington and Wyoming, are insured by the FDIC. The Bank is subject to primary supervision, periodic examination and regulation of the FDIC and the Montana Department of Administration's Banking and Financial Institutions Division as the Bank's primary regulators. These agencies have the authority to prohibit the Bank from engaging in what they believe constitute unsafe or unsound banking practices. The federal laws that apply to the Bank regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds, and the nature, amount of, and collateral for loans. Federal laws also regulate community reinvestment and insider credit transactions and impose safety and soundness standards.

Consumer Protection. Although the Bank is not supervised directly by the Consumer Financial Protection Bureau ("CFPB"), its consumer banking activities are subject to regulation by the CFPB. The Bank is subject to a variety of federal and state consumer protection laws and regulations that govern its relationship with consumers including laws and regulations that impose certain disclosure requirements and regulate the manner in which the Bank takes deposits, make and collect loans, and provide other services. In recent years, examination and enforcement by state and federal banking agencies for non-compliance with consumer protection laws and their implementing regulations have increased and become more intense. Failure to comply with these laws and regulations may subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

Community Reinvestment. The Community Reinvestment Act of 1977 ("CRA") requires that, in connection with examinations of financial institutions within their jurisdiction, federal bank regulators must evaluate the record of financial institutions in meeting the credit needs of its local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those banks. A bank's community reinvestment record is also considered by the applicable banking agencies in evaluating mergers, acquisitions, and applications to open a branch or facility.

Insider Credit Transactions. Banks are also subject to certain restrictions on extensions of credit to executive officers, directors, principal shareholders, and their related interests. Extensions of credit 1) must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are at least as stringent, as those prevailing at the time for comparable transactions with persons not related to the lending bank; and 2) must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to insiders. A violation of these restrictions may result in the assessment of substantial civil monetary penalties, regulatory enforcement actions, and other regulatory sanctions. The Dodd-Frank Act and federal regulations place additional restrictions on loans to insiders, and generally prohibits loans to senior officers other than for certain specified purposes.

Regulation of Management. Federal law 1) sets forth circumstances under which officers or directors of a bank may be removed by the institution's federal supervisory agency; 2) places restraints on lending by a bank to its executive officers, directors, principal shareholders, and their related interests; and 3) generally prohibits management personnel of a bank from serving as directors or in other management positions of another financial institution whose assets exceed a specified amount or which has an office within a specified geographic area.

Safety and Soundness Standards. Certain non-capital safety and soundness standards are also imposed upon banks. These standards cover, among other things, internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. Each insured depository institution must implement a comprehensive written information security program that includes administrative, technical, and physical safeguards appropriate to the institution's size and complexity and the nature and scope of its activities. The information security program must be designed to ensure the security and confidentiality of customer information, protect against unauthorized access to or use of such information and ensure the proper disposal of customer and consumer information. An institution that fails to meet these standards may be required to submit a compliance plan, or submit to regulatory sanctions.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Act") together with the Dodd-Frank Act, relaxed prior interstate branching restrictions under federal law by permitting, subject to regulatory approval, state and federally chartered commercial banks to establish branches in states where the laws permit banks chartered in such states to establish branches. The Interstate Act requires regulators to consult with community

organizations before permitting an interstate institution to close a branch in a low-income area. Federal bank regulations prohibit banks from using their interstate branches primarily for deposit production and federal bank regulatory agencies have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

Dividends

A principal source of the Company’s cash is from dividends received from the Bank, which are subject to government regulation and limitation on the Bank’s ability to pay dividends. Regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. The Bank is subject to Montana state law and cannot declare a dividend greater than the previous two years' net earnings without providing notice to the state regulators. Additionally, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company’s common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters. The third installment of the Basel Accords (“Basel III”) introduces additional limitations on a bank’s ability to issue dividends by requiring banks to maintain a common equity conservation buffer of at least an additional 2.5 percent of risk-weighted assets over the minimum required capital ratio to avoid restrictions on dividends, redemptions and executive bonus payments. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies which expresses the view that although no specific regulations restrict dividend payments by bank holding companies other than state corporate laws, a bank holding company should not pay cash dividends unless the company’s earnings for the past year are sufficient to cover both the cash dividends and a prospective rate of earnings retention that is consistent with the bank holding company’s capital needs, asset quality and overall financial condition.

Capital Adequacy

Regulatory Capital Guidelines. Federal bank regulatory agencies use capital adequacy guidelines in the examination and regulation of bank holding companies and banks. The guidelines are “risk-based,” meaning that they are designed to make capital requirements more sensitive to differences in risk profiles among banks and bank holding companies. On July 2, 2013, the federal banking agencies implemented the final rules (“Final Rules”) that substantially amended the regulatory risk-based capital rules applicable to the Company and the Bank. The phase-in period for the Final Rules began for the Bank on January 1, 2015, with full compliance with the Final Rules phased in by January 1, 2019.

Effective January 1, 2015, Basel III:

- creates “Tier 1 Common Equity,” a new measure of regulatory capital closer to pure tangible common equity than the present Tier 1 definition;
- establishes a required minimum risk-based capital ratio for Tier 1 Common Equity at 4.5 percent and adds a 2.5 percent capital conservation buffer;
- increases the required Tier 1 risk-based capital ratio to 6.0 percent and the required Total risk-based capital ratio to 8.0 percent;
- increases the required leverage ratio to 4 percent; and
- allows for permanent grandfathering of non-qualifying instruments, such as trust preferred securities, issued prior to May 19, 2010 for depository institution holding companies with less than $15 billion in total assets as of year end 2009, subject to a limit of 25 percent of Tier 1 capital.

The new capital rules require the Bank to meet the capital conservation buffer requirement by 2019 in order to avoid constraints on capital distributions, such as dividends and equity repurchases, and certain bonus compensation for executive officers. These new capital rules also change the risk-weights of certain assets for purposes of the risk-based capital ratios and phases out certain instruments as qualifying capital. The Final Rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as “well-capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8%; (iii) a total capital ratio of 10%; and (iv) a Tier 1 leverage ratio of 5%.

The application of the Final Rules may result in lower returns on invested capital, require the raising of additional capital or require regulatory action if the Bank were unable to comply with such requirements. In addition, management may be required to modify its business strategy due to the changes to the asset risk-weights for risk-based capital calculations and the requirement to meet the capital conservation buffers. The imposition of liquidity requirements in connection with Basel III could also cause the Bank to increase its holdings of liquid assets, change its business strategy, and make other changes to the terms of its funding. Management believes that, as of December 31, 2015, the Company would meet all capital adequacy requirements under the Basel III capital rules on a fully phased-in basis as if all such requirements were currently in effect.

Regulatory Oversight and Examination
The Federal Reserve conducts periodic inspections of bank holding companies. The supervisory objectives of the inspection program are to ascertain whether the financial strength of a bank holding company is maintained on an ongoing basis and to determine the effects or consequences of transactions between a bank holding company or its non-banking subsidiaries and its bank subsidiaries. For bank holding companies under $10 billion in assets, the inspection type and frequency varies depending on asset size, complexity of the organization, and the bank holding company's rating at its last inspection.

Banks are subject to periodic examinations by their primary regulators. Bank examinations have evolved from reliance on transaction testing in assessing a bank's condition to a risk-focused approach. These examinations are extensive and cover the entire breadth of operations of a bank. Generally, safety and soundness examinations occur on an 18-month cycle for banks under $500 million in total assets that are well capitalized and without regulatory issues, and 12-months otherwise. Examinations alternate between the federal and state bank regulatory agency or may occur on a combined schedule. The frequency of consumer compliance and CRA examinations is linked to the size of the institution and its compliance and CRA ratings at its most recent examinations. However, the examination authority of the Federal Reserve and the FDIC allows them to examine supervised banks as frequently as deemed necessary based on the condition of the bank or as a result of certain triggering events.

On December 18, 2015, the federal banking regulators issued guidance reminding financial institutions to re examine existing regulations regarding concentrations in commercial real estate lending. The purpose of the guidance is to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The banking regulators are directed to examine each bank's exposure to commercial real estate loans that are dependent on cash flow from the real estate held as collateral and to focus their supervisory resources on institutions that may have significant commercial real estate loan concentration risk. The guidance provides that the strength of an institution's lending and risk management practices with respect to such concentrations will be taken into account in evaluating capital adequacy and does not specifically limit a bank's commercial real estate lending to a specified concentration level.

Corporate Governance and Accounting
Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 ("SOX Act") addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, the SOX Act 1) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the SEC; 2) imposes specific and enhanced corporate disclosure requirements; 3) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; 4) requires companies to adopt and disclose information about corporate governance practices, including whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one "audit committee financial expert;" and 5) requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings.

As a publicly reporting company, the Company is subject to the requirements of the SOX Act and related rules and regulations issued by the SEC and NASDAQ. After enactment, the Company updated its policies and procedures to comply with the SOX Act's requirements and has found that such compliance, including compliance with Section 404 relating to the Company's internal control over financial reporting, has resulted in significant additional expense for the Company. The Company will continue to incur additional expense in its ongoing compliance.

Anti-Terrorism
USA Patriot Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("Patriot Act"), intended to combat terrorism, was renewed with certain amendments in 2006. The Patriot Act, in relevant part, 1) prohibits banks from providing correspondent accounts

directly to foreign shell banks; 2) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals; 3) requires financial institutions to establish an anti-money-laundering compliance program; and 4) eliminates civil liability for persons who file suspicious activity reports. The Patriot Act also includes provisions providing the government with power to investigate terrorism, including expanded government access to bank account records. Bank regulators are directed to consider a holding company's and bank's effectiveness in combating money laundering when ruling on BHCA and Bank Merger Act applications. The Company and the Bank have established compliance programs designed to comply with the Patriot Act requirements.

Financial Services Modernization

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (“GLB Act”) brought about significant changes to the laws affecting banks and bank holding companies. Generally, the GLB Act 1) repeals historical restrictions on preventing banks from affiliating with securities firms; 2) provides a uniform framework for the activities of banks, savings institutions and their holding companies; 3) broadens the activities that may be conducted by national banks and banking subsidiaries of bank holding companies; 4) provides an enhanced framework for protecting the privacy of consumer information and requires notification to consumers of bank privacy policies; and 5) addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions. The Bank is subject to FDIC regulations implementing the privacy protection provisions of the GLB Act. These regulations require banks to disclose their privacy policy, including informing consumers of their information sharing practices and informing consumers of their rights to opt out of certain practices.

Deposit Insurance

The Bank's deposits are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits and are subject to deposit insurance assessments by the FDIC designed to tie what banks pay for deposit insurance to the risks they pose. The Dodd-Frank Act redefined the assessment base used for calculating FDIC deposit insurance assessments by requiring the FDIC to determine deposit insurance assessments based on assets instead of deposits. Assessments are now based on the average consolidated total assets less average tangible equity capital of a financial institution. In addition, the Dodd-Frank Act raised the minimum designated reserve ratio (the FDIC is required to set the reserve ratio each year) of the DIF from 1.15 percent to 1.35 percent; requires that the DIF reserve ratio meet 1.35 percent by 2020; and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. In October 2015, the FDIC stated that it would offset the effect of the increase in the minimum reserve ratio on insured depository institutions with total consolidated assets of less than $10 billion by imposing a surcharge on insured depository institutions with total consolidated assets of $10 billion or more. No institution may pay a dividend if it is in default on its federal deposit insurance assessment. The FDIC may also prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious risk to the DIF.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. Management is not aware of any existing circumstances which would result in termination of the deposit insurance of the Bank.

Insurance of Deposit Accounts. The Dodd-Frank Act permanently increased FDIC deposit insurance from $100,000 to $250,000 per depositor. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act significantly changed the bank regulatory structure and is affecting the lending, deposit, investment, trading and operating activities of financial institutions and the bank holding companies, including the Company and the Bank. Some of the provisions of the Dodd-Frank Act that may impact the Company's business are summarized below.

Corporate Governance. The Dodd-Frank Act requires publicly traded companies to provide their shareholders with 1) a non-binding shareholder vote on executive compensation; 2) a non-binding shareholder vote on the frequency of such vote; 3) disclosure of “golden parachute” arrangements in connection with specified change in control transactions; and 4) a non-binding shareholder vote on golden parachute arrangements in connection with these change in control

transactions. Effective August 5, 2015, the SEC adopted a rule mandated by the Dodd-Frank Act that requires a public company to disclose the ratio of the compensation of its Chief Executive Officer (“CEO”) to the median compensation of its employees. This rule is intended to provide shareholders with information that they can use to evaluate a CEO’s compensation. Companies will be required to provide disclosure of their pay ratios for their first fiscal year beginning on or after January 1, 2017.

Prohibition Against Charter Conversions of Financial Institutions. The Dodd-Frank Act generally prohibits a depository institution from converting from a state to federal charter, or vice versa, while it is the subject to an enforcement action unless the depository institution seeks prior approval from its primary regulator and complies with specified procedures to ensure compliance with the enforcement action.

Repeal of Demand Deposit Interest Prohibition. The Dodd-Frank Act repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Consumer Financial Protection Bureau. The Dodd-Frank Act established the CFPB and empowered it to exercise broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws. The Bank is subject to consumer protection regulations issued by the CFPB, but as a financial institution with assets of less than $10 billion, the Bank is generally not subject to supervision and examination by the CFPB. The CFPB has issued and continues to issue numerous regulations under which the Company will continue to incur additional expense in its ongoing compliance with CFPB regulations. Significant recent CFPB developments that may affect the Bank's operations and compliance costs include:

- The issuance of proposals to ban consumer finance companies from including arbitration clauses that block class action lawsuits in their consumer contracts. The proposals under consideration would require that companies that choose to use arbitration clauses for individual disputes submit to the CFPB the arbitration claims filed and awards issued. The current proposals would apply to credit cards, checking and deposit accounts, prepaid cards, money transfer services, certain auto loans and installment loans.
- Positions taken by the CFPB on fair lending, including applying the disparate impact theory which could make it more difficult for lenders to charge different rates or apply different terms to loans to different customers.
- The issuance of a final rule amending Regulation C, which implements the Home Mortgage Disclosure Act ("HMDA"), requiring most lenders to report expanded information in order for the CFPB to more effectively monitor fair lending concerns and other information shortcomings identified by the CFPB.
- Positions taken by the CFPB regarding the Electronic Fund Transfer Act and Regulation E, which require companies to obtain consumer authorizations before automatically debiting a consumer's account for pre-authorized electronic funds transfers.
- Actions taken to regulate and supervise credit bureaus and debt collections.

Proposed Legislation

The economic and political environment of the past several years has led to a number of proposed legislative, governmental and regulatory initiatives that may significantly impact the banking industry. Other regulatory initiatives by federal and state banking agencies may also significantly impact the Bank's business. The Bank cannot predict whether these or any other proposals will be enacted or the ultimate impact of any such initiatives on its operations, competitive situation, financial conditions, or results of operations.

Effects of Federal Government Monetary Policy

The Company's earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements national monetary policy for such purposes of promoting maximum employment, stable prices and moderate long-term interest rates. Through its open market operations in U.S. government securities, control of the discount rate applicable to borrowings from the Federal Reserve, establishment of reserve requirements against certain deposits, and control of the rate of interest applicable to excess reserve balances and reverse repurchase agreements, the Federal Reserve influences the availability and cost of money and credit, and ultimately, a range of economic variables including employment, output, and prices of goods and services. The nature and impact of future changes in monetary policies and their impact on the Company or the Bank cannot be predicted with certainty.

Item 1A. Risk Factors

An investment in the Company's common stock involves certain risks. The following is a discussion of what the Company believes are the most significant risks and uncertainties that may affect the Company's business, financial condition and future results.

National and global economic and geopolitical conditions could adversely affect the Company's future results of operations or market price of its stock.
The Company's business is impacted by factors such as economic, political and market conditions, broad trends in industry and finance, and changes in government monetary policies, all of which are beyond the Company's control. National and global economies appear to remain fragile, as evidenced by recent market volatility resulting from, among other things, perceived weakness in the Chinese economy and the precipitous decline in oil prices. Future economic conditions cannot be predicted, and any renewed deterioration in the economies of the nation as a whole or in the Company's markets could have an adverse effect, which could be material, on its business, financial condition, results of operations and prospects, and could cause the market price of the Company's stock to decline.

Economic conditions in the market areas the Bank serves may adversely impact its earnings and could increase the credit risk associated with its loan portfolio and the value of its investment portfolio.
Substantially all of the Bank's loans are to businesses and individuals in Montana, Idaho, Wyoming, Utah, Colorado and Washington, and a softening of the economies in these market areas could have a material adverse effect on its business, financial condition, results of operations and prospects. Although the Company has minimal exposure to the energy industry, a further decline in this sector could have an unfavorable effect on the Company's performance. Any future deterioration in economic conditions nationally or in the markets the Bank serves could result in the following consequences, any of which could have an adverse impact, which could be material, on the Company's business, financial condition, results of operations and prospects:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- collateral for loans made may decline in value, in turn reducing customers' borrowing power, reducing the value of assets and collateral associated with existing loans;
- certain securities within the investment portfolio could become other-than-temporarily impaired, requiring a write-down through earnings to fair value, thereby reducing equity;
- low cost or non-interest bearing deposits may decrease; and
- demand for loan and other products and services may decrease.

The allowance for loan and lease losses may not be adequate to cover actual loan losses, which could adversely affect earnings.
The Bank maintains an allowance for loan and lease losses ("ALLL" or "allowance") in an amount that it believes is adequate to provide for losses in the loan portfolio. While the Bank strives to carefully manage and monitor credit quality and to identify loans that may become non-performing, at any time there are loans included in the portfolio that will result in losses, but that have not been identified as non-performing or potential problem loans. With respect to real estate loans and property taken in satisfaction of such loans ("other real estate owned" or "OREO"), the Bank can be required to recognize significant declines in the value of the underlying real estate collateral or OREO quite suddenly as values are updated through appraisals and evaluations (new or updated) performed in the normal course of monitoring the credit quality of the loans. There are many factors that can cause the value of real estate to decline, including declines in the general real estate market, changes in methodology applied by appraisers, and/or using a different appraiser than was used for the prior appraisal or evaluation. The Bank's ability to recover on real estate loans by selling or disposing of the underlying real estate collateral is adversely impacted by declining values, which increases the likelihood the Bank will suffer losses on defaulted loans beyond the amounts provided for in the ALLL. This, in turn, could require material increases in the Bank's provision for loan losses and ALLL. By closely monitoring

credit quality, the Bank attempts to identify deteriorating loans before they become non-performing assets and adjust the ALLL accordingly. However, because future events are uncertain, and if difficult economic conditions occur, there may be loans that deteriorate to a non-performing status in an accelerated time frame. As a result, future additions to the ALLL may be necessary beyond the levels commensurate with any loan growth. Because the loan portfolio contains a number of loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in non-performing loans, requiring an increase to the ALLL. Additionally, future significant additions to the ALLL may be required based on changes in the mix of loans comprising the portfolio, changes in the financial condition of borrowers, which may result from changes in economic conditions, or changes in the assumptions used in determining the ALLL. Additionally, federal and state banking regulators, as an integral part of their supervisory function, periodically review the Bank's loan portfolio and the adequacy of the ALLL. These regulatory authorities may require the Bank to recognize further loan loss provisions or charge-offs based upon their judgments, which may be different from the Bank's judgments. Any increase in the ALLL could have an adverse effect, which could be material, on the Company's financial condition and results of operations.

The Bank has a high concentration of loans secured by real estate, so any future deterioration in the real estate markets could require material increases in the ALLL and adversely affect the Company’s financial condition and results of operations.
The Bank has a high degree of concentration in loans secured by real estate. Any future deterioration in the real estate markets could adversely impact borrowers’ ability to repay loans secured by real estate and the value of real estate collateral, thereby increasing the credit risk associated with the loan portfolio. The Bank’s ability to recover on these loans by selling or disposing of the underlying real estate collateral would be adversely impacted by any decline in real estate values, which increases the likelihood that the Bank will suffer losses on defaulted loans secured by real estate beyond the amounts provided for in the ALLL. This, in turn, could require material increases in the ALLL which would adversely affect the Company’s financial condition and results of operations.

There can be no assurance the Company will be able to continue paying dividends on the common stock at recent levels.
The Company may not be able to continue paying quarterly dividends commensurate with recent levels given that the ability to pay dividends on the Company’s common stock depends on a variety of factors. The payment of dividends is subject to government regulation in that regulatory authorities may prohibit banks and bank holding companies from paying dividends that would constitute an unsafe or unsound banking practice. This is heavily based on the Company’s earnings and capital levels which currently are strong. Current guidance from the Federal Reserve provides, among other things, that dividends per share should not exceed earnings per share measured over the previous four fiscal quarters. The Bank is also subject to Montana state law and cannot declare a dividend greater than the previous two years’ net earnings without providing notice to the state. As a result, future dividends will generally depend on the level of earnings at the Bank.

The Company may not be able to continue to grow organically or through acquisitions.
Historically, the Company has expanded through a combination of organic growth and acquisitions. If market and regulatory conditions remain challenging, the Company may be unable to grow organically or successfully complete or integrate potential future acquisitions. The Company has historically used its strong stock currency to complete acquisitions. Downturns in the stock market and the Company’s stock could have an impact on future acquisitions. Furthermore, there can be no assurance that the Company can successfully complete such transactions, since they are subject to regulatory review and approval.

The FDIC has adopted a plan to increase the federal Deposit Insurance Fund, including additional future premium increases and special assessments.
The FDIC has implemented a plan to increase insurance premiums and has imposed special assessments to rebuild and maintain the federal deposit insurance fund, and any additional future premium increases or special assessments could have a material adverse effect on the Company’s business, financial condition, and results of operations. Additional information regarding this matter is set forth under the heading “Supervision and Regulation” in “Item 1. Business.”

The Dodd-Frank Act broadened the base for FDIC insurance assessments and assessments are now based on the average consolidated total assets less average tangible equity capital of a financial institution. In addition, the Dodd-Frank Act established 1.35 percent as the minimum Deposit Insurance Fund reserve ratio. The FDIC has determined that the fund reserve ratio should be 2.0 percent and has adopted a plan under which it will meet the statutory minimum fund reserve ratio of 1.35 percent by the statutory deadline of September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum fund reserve ratio to 1.35 percent from the former statutory minimum of 1.15 percent. As a result, the deposit insurance assessments to be paid by the Bank could increase.

Despite the FDIC’s actions to restore the DIF, the DIF could suffer additional losses in the future due to failures of insured institutions. There could be additional significant deposit insurance premium increases, special assessments or

prepayments in order to restore the insurance fund's reserve ratio. Any significant premium increases or special assessments could have a material adverse effect on the Company's financial condition and results of operations.

The Bank's loan portfolio mix increases the exposure to credit risks tied to deteriorating conditions.
The loan portfolio contains a high percentage of commercial, commercial real estate, real estate acquisition and development loans in relation to the total loans and total assets. These types of loans have historically been viewed as having more risk of default than residential real estate loans or certain other types of loans or investments. In fact, the FDIC has issued pronouncements alerting banks of its concern about banks with a heavy concentration of commercial real estate loans. These types of loans also typically are larger than residential real estate loans and other commercial loans. Because the Bank's loan portfolio contains a significant number of commercial and commercial real estate loans with relatively large balances, the deterioration of one or more of these loans may cause a significant increase in non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, which could have a material adverse impact on results of operations and financial condition.

Non-performing assets could increase, which could adversely affect the Company's results of operations and financial condition.
The Bank may experience increases in non-performing assets in the future. Non-performing assets (which include OREO) adversely affect the Company's financial condition and results of operations in various ways. The Bank does not record interest income on non-accrual loans or OREO, thereby adversely affecting its earnings. When the Bank takes collateral in foreclosures and similar proceedings, it is required to mark the related asset to the then fair value of the collateral, less estimated cost to sell, which may result in a charge-off of the value of the asset and lead the Bank to increase the provision for loan losses. An increase in the level of non-performing assets also increases the Bank's risk profile and may impact the capital levels its regulators believe are appropriate in light of such risks. Further decreases in the value of these assets, or the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond the Bank's control, could adversely affect the Company's business, results of operations and financial condition, perhaps materially. In addition to the carrying costs to maintain OREO, the resolution of non-performing assets increases the Bank's loan administration costs generally, and requires significant commitments of time from management and the Company's directors, which reduces the time they have to focus on profitably growing the Company's business.

A decline in the fair value of the Bank's investment portfolio could adversely affect earnings.
The fair value of the Bank's investment securities could decline as a result of factors including changes in market interest rates, credit quality and credit ratings, lack of market liquidity and other economic conditions. An investment security is impaired if the fair value of the security is less than the carrying value. When a security is impaired, the Bank determines whether the impairment is temporary or other-than-temporary. If an impairment is determined to be other-than-temporary, an impairment loss is recognized by reducing the amortized cost only for the credit loss associated with the other-than-temporary loss with a corresponding charge to earnings for a like amount. Any such impairment charge would have an adverse effect, which could be material, on the Company's results of operations and financial condition, including its capital.

The size of the investment portfolio has stabilized over the prior two years and represents 36 percent of total assets at December 31, 2015 and 35 percent of total assets at December 31, 2014. While the Bank believes that the terms of such investments have been kept relatively short, the Bank is subject to elevated interest rate risk exposure if rates were to increase sharply. Further, the change in the mix of the Bank's assets to more investment securities presents a different type of asset quality risk than the loan portfolio. In addition, in connection with the ongoing monitoring of its investment portfolio, the Bank reclassified obligations of state and local government securities with a fair value of approximately $485 million, inclusive of a net unrealized gain of $4.6 million, from available-for-sale ("AFS") classification to held-to-maturity ("HTM") classification. The reclassification occurred on January 1, 2014 and changed the allocation of the Bank's entire investment portfolio from 100 percent AFS to approximately 85 percent AFS and 15 percent HTM. At December 31, 2015, the investment portfolio consisted of 79 percent AFS and 21 percent HTM designated investment securities. While the Company believes a relatively conservative management approach has been applied to the investment portfolio, there is always potential loss exposure under changing economic conditions.

Fluctuating interest rates can adversely affect profitability.
The Bank's profitability is dependent to a large extent upon net interest income, which is the difference (or "spread") between the interest earned on loans, investment securities and other interest earning assets and interest paid on deposits, borrowings, and other interest bearing liabilities. Because of the differences in maturities and repricing characteristics of interest earning assets and interest bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest earning assets and interest paid on interest bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the Bank's interest rate spread, and, in turn, profitability. The Bank seeks to manage its interest rate risk within well established policies and guidelines. Generally, the Bank seeks an asset and liability structure that insulates net interest income from large deviations attributable to changes in market rates. However, the Bank's structures and practices to manage interest rate risk may not be effective

in a highly volatile rate environment. Recently, the Federal Reserve, for the first time since the last recession, increased the federal funds target range by 0.25 percent to 0.25 to 0.50 percent and has indicated further increases could continue depending on economic conditions.

Interest rate swaps expose the Bank to certain risks, and may not be effective in mitigating exposure to changes in interest rates.
The Bank has entered into interest rate swap agreements in order to manage a portion of the interest rate volatility risk. The Bank anticipates that it may enter into additional interest rate swaps. These swap agreements involve other risks, such as the risk that the counterparty may fail to honor its obligations under these arrangements, leaving the Bank vulnerable to interest rate movements. The Bank's current interest rate swap agreements include bilateral collateral agreements whereby the net fair value position is collateralized by the party in a net liability position. The bilateral collateral agreements reduce the Bank's counterparty risk exposure. There can be no assurance that these arrangements will be effective in reducing the Bank's exposure to changes in interest rates.

If goodwill recorded in connection with acquisitions becomes additionally impaired, it could have an adverse impact on earnings and capital.
Accounting standards require the Company to account for acquisitions using the acquisition method of accounting. Under acquisition accounting, if the purchase price of an acquired company exceeds the fair value of its net assets, the excess is carried on the acquirer's balance sheet as goodwill. In accordance with accounting principles generally accepted in the United States of America ("GAAP"), goodwill is not amortized but rather is evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. The Company's goodwill was not considered impaired as of December 31, 2015 and 2014; however, there can be no assurance that future evaluations of goodwill will not result in findings of impairment and write-downs, which could be material. While a non-cash item, impairment of goodwill could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, impairment of goodwill could subject the Company to regulatory limitations, including the ability to pay dividends on its common stock.

Growth through future acquisitions could, in some circumstances, adversely affect profitability or other performance measures.
During 2015 and in prior years, the Company has been active in acquisitions and may in the future engage in selected acquisitions of additional financial institutions. There are risks associated with any such acquisitions that could adversely affect profitability and other performance measures. These risks include, among other things, incorrectly assessing the asset quality of a financial institution being acquired, discovering compliance or regulatory issues after the acquisition, encountering greater than anticipated cost and use of management time associated with integrating acquired businesses into the Company's operations, and being unable to profitably deploy funds acquired in an acquisition. The Company may not be able to continue to grow through acquisitions, and if it does, there is a risk of negative impacts of such acquisitions on the Company's operating results and financial condition.

The Company anticipates that it might issue capital stock in connection with future acquisitions. Acquisitions and related issuances of stock may have a dilutive effect on earnings per share and the percentage ownership of current shareholders.

The Company's business is heavily dependent on the services of the senior management team and proposed changes could have an impact on the Company.
The Company believes its success to date has been substantially dependent on the members of the executive management team, in particular Mick Blodnick, the Company's CEO. The unexpected loss of any of these persons could have an adverse effect on the Company's business and future growth prospects. Fortunately, the Company has a decentralized management style with separate Presidents for each of its bank divisions. Notwithstanding this, Mr. Blodnick has been instrumental in the Company's success. As previously announced, Mr. Blodnick will retire as CEO at the end of 2016 but plans to remain on the Board. The Company, following a national search, hired Randall Chesler to be Mr. Blodnick's successor. Mr. Chesler has served as President of the Bank since August 1, 2015, a position he will continue to hold until January 1, 2017, at which time he will assume the additional roles of President and CEO of the Company and CEO of the Bank. The objective of this 17-month transition period is to facilitate a smooth succession of management at the President/CEO level.

Competition in the Bank's market areas may limit future success.
Commercial banking is a highly competitive business and a consolidating industry. The Bank competes with other commercial banks, savings and loans, credit unions, finance, insurance and other non-depository companies operating in its market areas. The Bank is subject to substantial competition for loans and deposits from other financial institutions. Some of its competitors are not subject to the same degree of regulation and restriction as the Bank. Some of the Bank's competitors have greater financial resources than the Bank. If the Bank is unable to effectively compete in its market areas, the Bank's business, results of operations and prospects could be adversely affected.

A failure in or breach of the Bank's operational or security systems, or those of the Bank's third party service providers, including as a result of cyber attacks, could disrupt business, result in the disclosure or misuse of confidential or proprietary information, damage the Company's reputation, increase costs and cause losses.

The Bank's operations rely heavily on the secure processing, storage and transmission of confidential and other information on its computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in the Bank's online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of the Bank's systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber attacks, electronic fraudulent activity or attempted theft of financial assets. The Bank cannot assure that any such failures, interruption or security breaches will not occur, or if they do occur, that they will be adequately addressed. While the Bank has certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. The Bank may be required to expend significant additional resources in the future to modify and enhance its protective measures.

Additionally, the Bank faces the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate its business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, the Bank's operational systems.

Any failures, interruptions or security breaches in the Bank's information systems could damage its reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose the Company to civil litigation, regulatory fines or losses not covered by insurance.

The Company and the Bank operate in a highly regulated environment and changes or increases in, or supervisory enforcement of, banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect the Company.

The Company and the Bank are subject to extensive regulation, supervision and examination by federal and state banking regulators. In addition, as a publicly-traded company, the Company is subject to regulation by the SEC. Any change in applicable regulations or federal, state or local legislation or in policies or interpretations or regulatory approaches to compliance and enforcement, income tax laws and accounting principles could have a substantial impact on the Company and its operations. Changes in laws and regulations may also increase expenses by imposing additional fees or taxes or restrictions on operations. Additional legislation and regulations that could significantly affect powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on the Company's financial condition and results of operations. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies or damage to the Company's reputation, all of which could adversely affect the Company's business, financial condition or results of operations.

Regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and bank holding companies in the performance of their supervisory and enforcement duties. Existing and proposed federal and state laws and regulations restrict, limit and govern all aspects of the Company's activities and may affect the ability to expand its business over time, may result in an increase in the Company's compliance costs, and may affect its ability to attract and retain qualified executive officers and employees. Recently, these powers have been utilized more frequently due to the challenging national, regional and local economic conditions. The exercise of regulatory authority may have a negative impact on the Company's financial condition and results of operations, including limiting the types of financial services and products the Company may offer or increasing the ability of non-banks to offer competing financial services and products. Additionally, the Company's business is affected significantly by the fiscal and monetary policies of the federal government and its agencies, including the Federal Reserve.

The Company cannot accurately predict the full effects of recent legislation or the various other governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets and on the Company. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions could materially and adversely affect the Company's business, financial condition, results of operations, and the trading price of the Company's common stock.

The Company has various anti-takeover measures that could impede a takeover.

The Company's articles of incorporation include certain provisions that could make more difficult the acquisition of the Company by means of a tender offer, a proxy contest, merger or otherwise. These provisions include a requirement that any "Business Combination" (as defined in the articles of incorporation) be approved by at least 80 percent of the voting power of the then outstanding shares, unless it is either approved by the Company's Board or certain price and procedural requirements are satisfied. In addition, the authorization of preferred stock, which is intended primarily as a financing tool and not as a defensive measure against takeovers, may potentially be used by

management to make more difficult uninvited attempts to acquire control of the Company. These provisions may have the effect of lengthening the time required to acquire control of the Company through a tender offer, proxy contest or otherwise, and may deter any potentially unfriendly offers or other efforts to obtain control of the Company. This could deprive the Company's shareholders of opportunities to realize a premium for their common stock in the Company, even in circumstances where such action is favored by a majority of the Company's shareholders.

The impact of Basel III is uncertain.

Basel III sets forth more robust global regulatory standards on capital adequacy, qualifying capital instruments, leverage ratios, market liquidity risk, and stress testing, which may be stricter than standards currently in place. The phase-in period for Basel III begins January 1, 2015 and ends on January 1, 2019. The implementation of these new standards could have an adverse impact on the Company's financial position and future earnings due to, among other things, the increased Tier 1 capital ratio requirements that will be implemented. Additional information regarding Basel III is set forth under the heading "Supervision and Regulation" in "Item 1. Business."

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following schedule provides information on the Company’s 144 properties as of December 31, 2015:

(Dollars in thousands)	Properties Leased	Properties Owned	Net Book Value
Montana	6	53	$ 80,748
Idaho	7	21	25,783
Wyoming	2	15	17,229
Colorado	2	21	16,971
Utah	1	3	2,279
Washington	3	10	5,848
	21	123	$ 148,858

The Company believes that all of its facilities are well maintained, generally adequate and suitable for the current operations of its business, as well as fully utilized. In the normal course of business, new locations and facility upgrades occur as needed.

For additional information regarding the Company’s premises and equipment and lease obligations, see Note 4 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data.”

Item 3. Legal Proceedings

The Company is involved in various claims, legal actions and complaints which arise in the ordinary course of business. In the Company’s opinion, all such matters are adequately covered by insurance, are without merit or are of such kind, or involve such amounts, that unfavorable disposition would not have a material adverse effect on the financial condition or results of operations of the Company.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters
and Issuer Purchases of Equity Securities

The Company's stock trades on the NASDAQ Global Select Market under the symbol: GBCI. As of December 31, 2015, there were approximately 1,667 shareholders of record for the Company's common stock. The market range of high and low closing prices for the Company's common stock for the periods indicated are shown below:

	2015		2014	
	High	Low	High	Low
First quarter	$27.47	22.27	30.27	25.35
Second quarter	30.08	24.76	29.55	24.88
Third quarter	29.88	24.33	28.93	25.86
Fourth quarter	29.69	25.74	29.57	24.74

The following table summarizes the Company's dividends declared during the periods indicated:

	Years ended	
	December 31, 2015	December 31, 2014
First quarter	$0.18	0.16
Second quarter	0.19	0.17
Third quarter	0.19	0.17
Fourth quarter	0.19	0.18
Special	0.30	0.30
Total	$1.05	0.98

Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations. Information regarding the regulation considerations is set forth under the heading "Supervision and Regulation" in "Item 1. Business."

Unregistered Securities

Effective March 3, 2015, the Company issued 443,644 shares of common stock in connection with its acquisition of CB. Together with $12.2 million in cash, the Company shares were issued upon the closing of the merger to shareholders of CB, in exchange for all of the issued and outstanding shares of CB. The Company determined that all CB shareholders were accredited investors as defined in Rule 501(a) of Regulation D promulgated under the Securities Act, the offering did not involve any form of general solicitation or general advertising and the offering was otherwise conducted in accordance with the requirements of Rule 501(a) of Regulation D and Rule 506 thereunder.

Issuer Stock Purchases

The Company made no stock repurchases during 2015.

Stock Performance Graphs

The following graphs compare the yearly cumulative total return of the Company’s common stock over both a five-year and ten-year measurement period with the yearly cumulative total return on the stocks included in 1) the Russell 2000 Index; and 2) the SNL Bank Index comprised of banks and bank holding companies with total assets between $5 billion and $10 billion. Each of the cumulative total returns is computed assuming the reinvestment of dividends at the frequency with which dividends were paid during the applicable years.

Item 6. Selected Financial Data

The following financial data of the Company is derived from the Company's historical audited financial statements and related notes. The information set forth below should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" contained elsewhere in this Annual Report on Form 10-K.

	December 31,					Compounded Annual Growth Rate	
(Dollars in thousands, except per share data)	2015	2014	2013	2012	2011	1-Year 2015/2014	5-Year 2015/2011
Selected Statements of Financial Condition Information							
Total assets	$9,089,232	$8,306,507	$7,884,350	$7,747,440	$7,187,906	9.4 %	6.1 %
Investment securities	3,312,832	2,908,425	3,222,829	3,683,005	3,126,743	13.9 %	6.7 %
Loans receivable, net	4,948,984	4,358,342	3,932,487	3,266,571	3,328,619	13.6 %	6.5 %
Allowance for loan and lease losses	(129,697)	(129,753)	(130,351)	(130,854)	(137,516)	— %	(1.1)%
Goodwill and intangibles	155,193	140,606	139,218	112,274	114,384	10.4 %	(0.2)%
Deposits	6,945,008	6,345,212	5,579,967	5,364,461	4,821,213	9.5 %	9.0 %
Federal Home Loan Bank advances	394,131	296,944	840,182	997,013	1,069,046	32.7 %	(16.4)%
Securities sold under agreements to repurchase and other borrowed funds	430,016	404,418	321,781	299,540	268,638	6.3 %	9.8 %
Stockholders' equity	1,076,650	1,028,047	963,250	900,949	850,227	4.7 %	5.1 %
Equity per share	14.15	13.70	12.95	12.52	11.82	3.3 %	3.9 %
Equity as a percentage of total assets	11.85 %	12.38 %	12.22 %	11.63 %	11.83 %	(4.3)%	(0.9)%

	Years ended December 31,					Compounded Annual Growth Rate	
(Dollars in thousands, except per share data)	2015	2014	2013	2012	2011	1-Year 2015/2014	5-Year 2015/2011
Summary Statements of Operations							
Interest income	$319,681	$299,919	$263,576	$253,757	$280,109	6.6 %	2.1 %
Interest expense	29,275	26,966	28,758	35,714	44,494	8.6 %	(11.4)%
Net interest income	290,406	272,953	234,818	218,043	235,615	6.4 %	4.3 %
Provision for loan losses	2,284	1,912	6,887	21,525	64,500	19.5 %	(51.5)%
Non-interest income	98,761	90,302	93,047	91,496	78,199	9.4 %	2.4 %
Non-interest expense [1]	236,757	212,679	195,317	193,421	191,965	11.3 %	4.7 %
Income before income taxes [1]	150,126	148,664	125,661	94,593	57,349	1.0 %	24.8 %
Income tax expense [1]	33,999	35,909	30,017	19,077	7,265	(5.3)%	35.9 %
Net income [1]	$116,127	$112,755	$95,644	$75,516	$50,084	3.0 %	22.4 %

Basic earnings per share [1]	$1.54	$1.51	$1.31	$1.05	$0.70	2.0 %	20.3 %
Diluted earnings per share [1]	$1.54	$1.51	$1.31	$1.05	$0.70	2.0 %	20.3 %
Dividends declared per share [2]	$1.05	$0.98	$0.60	$0.53	$0.52	7.1 %	15.1 %

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(Dollars in thousands)	At or for the Years ended December 31, 2015		2014		2013		2012		2011	
Selected Ratios and Other Data										
Return on average assets [1]	1.36	%	1.42	%	1.23	%	1.01	%	0.72	%
Return on average equity [1]	10.84	%	11.11	%	10.22	%	8.54	%	5.78	%
Dividend payout ratio [1]	68.18	%	64.90	%	45.80	%	50.48	%	74.29	%
Average equity to average asset ratio	12.52	%	12.81	%	11.99	%	11.84	%	12.39	%
Total capital (to risk-weighted assets)	17.17	%	18.93	%	18.97	%	20.09	%	20.27	%
Tier 1 capital (to risk-weighted assets)	15.91	%	17.67	%	17.70	%	18.82	%	18.99	%
Common Equity Tier 1 (to risk-weighted assets)	14.06	%	N/A		N/A		N/A		N/A	
Tier 1 capital (to average assets)	12.01	%	12.45	%	12.11	%	11.31	%	11.81	%
Net interest margin on average earning assets (tax-equivalent)	4.00	%	3.98	%	3.48	%	3.37	%	3.89	%
Efficiency ratio [3]	55.40	%	54.31	%	54.51	%	54.02	%	51.34	%
Allowance for loan and lease losses as a percent of loans	2.55	%	2.89	%	3.21	%	3.85	%	3.97	%
Allowance for loan and lease losses as a percent of nonperforming loans	244	%	209	%	158	%	133	%	102	%
Non-performing assets as a percentage of subsidiary assets	0.88	%	1.08	%	1.39	%	1.87	%	2.92	%
Non-performing assets	$ 80,079		89,900		109,420		143,527		213,456	
Loans originated and acquired	$ 3,000,830		2,404,299		2,477,804		2,237,977		1,650,418	
Number of full time equivalent employees	2,149		1,943		1,837		1,677		1,653	
Number of locations	144		129		118		108		106	

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[1] Excludes 2011 goodwill impairment charge of $32.6 million ($40.2 million pre-tax). For additional information on the goodwill impairment charge, see the “Non-GAAP Financial Measures” section below.
[2] Includes a special dividend declared of $0.30 per share for 2015 and 2014.
[3] Non-interest expense before OREO expenses, core deposit intangibles amortization, goodwill impairment charges, and non-recurring expense items as a percentage of tax-equivalent net interest income and non-interest income, excluding gains or losses on sale of investments, OREO income, and non-recurring income items.

Non-GAAP Financial Measures

In addition to the results presented in accordance with GAAP, this Annual Report on Form 10-K 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.

(Dollars in thousands, except per share data)	Year ended December 31, 2011 GAAP	Goodwill Impairment Charge, Net of Tax		Non-GAAP
Non-interest expense	$ 232,124	(40,159	)	191,965

Income before income taxes	$17,190	40,159	57,349
Income tax (benefit) expense	$(281)	7,546	7,265
Net income	$17,471	32,613	50,084
Basic earnings per share	$0.24	0.46	0.70
Diluted earnings per share	$0.24	0.46	0.70
Return on average assets	0.25%	0.47%	0.72%
Return on average equity	2.04%	3.74%	5.78%
Dividend payout ratio	216.67%	(142.38)%	74.29%

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to provide a more comprehensive review of the Company’s operating results and financial condition than can be obtained from reading the Consolidated Financial Statements alone. The discussion should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in “Item 8. Financial Statements and Supplementary Data.”

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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” similar meaning. 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. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations in the forward-looking statements, including those set forth in this Annual Report on Form 10-K, or the documents incorporated by reference:

- the risks associated with lending and potential adverse changes of the credit quality of loans in the Company’s portfolio;
- changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System or the Federal Reserve Board, which could adversely affect the Company’s net interest income and profitability;
- legislative or regulatory changes, including increased banking and consumer protection regulation that adversely affect the Company’s business;
- ability to complete pending or prospective future acquisitions, limit certain sources of revenue, or increase cost of operations;
- costs or difficulties related to the completion and integration of acquisitions;
- the goodwill the Company has recorded in connection with acquisitions could become impaired, which may have an adverse impact on earnings and capital;
- reduced demand for banking products and services;
- the risks presented by continued public stock market volatility, which could adversely affect the market price of the Company’s common stock and the ability to raise additional capital or grow the Company through acquisitions;
- consolidation in the financial services industry in the Company’s markets resulting in the creation of larger financial institutions who may have greater resources could change the competitive landscape;
- dependence on the CEO, the senior management team and the Presidents of Bank divisions;
- potential interruption or breach in security of the Company’s systems and technological changes which could expose us to new risks, fraud or system failures; and
- the Company’s success in managing risks involved in the foregoing.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in “Item 1A. Risk Factors.” Please take into account that forward-looking statements speak only as of the date of this Annual Report on Form 10-K (or documents incorporated by reference, if applicable). The Company does not undertake any obligation to publicly correct or update any forward-looking statement if it later becomes aware that actual results are likely to differ materially from those expressed in such forward-looking statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2015 COMPARED TO DECEMBER 31, 2014

Highlights and Overview
During the first quarter of 2015, the Company completed the acquisition of Montana Community Banks, Inc. and its subsidiary, Community Bank, Inc., a community bank based in Ronan, Montana. CB provides banking services to individuals and businesses in western Montana, with eight banking offices located in Missoula, Polson, Ronan, and Pablo. The branches of CB became a part of the Glacier Bank and First Security Bank of Missoula bank divisions. During the second quarter of 2015, the Company also successfully completed the data processing system conversion for this acquisition.

During the fourth quarter of 2015, the Company completed the acquisition of Cañon Bank Corporation and its subsidiary Cañon National Bank, a community bank based in Cañon City, Colorado. Cañon provides banking services to individuals and businesses in south central Colorado, with nine banking offices located in Colorado Springs, Pueblo, Pueblo West, Cañon City, Colorado City, and Florence, Colorado. The branches of Cañon became a part of the Bank of the San Juans bank division.

During the second quarter of 2015, the Company announced that Randall Chesler would become President of Glacier Bank effective August 1, 2015 and will succeed Mick Blodnick as President and Chief Executive Officer of the Company effective January 1, 2017. Mr. Chesler brings more than 30 years of experience in the financial services industry, most recently as President of CIT Bank, the Salt Lake City-based banking subsidiary of CIT Group. Mr. Blodnick will continue to serve as President and CEO of the Company and CEO of the Bank until his retirement at the end of 2016, although he anticipates continuing as a member of the Board. Mr. Blodnick worked closely with Mr. Chesler during 2015 and will continue to do so in 2016 to ensure a smooth leadership transition.

During the current year, the Company started a two year project to consolidate the Company's thirteen core bank division database systems into one core database system. The primary reasons for the project are to increase efficiencies and prepare the Company for the future, including reaching $10 billion in asset size and complying with the Dodd-Frank Act stress tests ("DFAST"). The Bank divisions will continue to operate as separate divisions with their own management teams, which has been a cornerstone of the Company's success. The current year encompassed the planning phase of the consolidation project which has been very successful and the Company plans to implement and complete the project in various phases during 2016.

The Company experienced another strong year for loan and deposit growth, while keeping borrowings at a minimum and selectively purchasing investment securities. For the third consecutive year, the Company experienced organic loan growth. Excluding acquisitions, loans receivable increased $346 million, or 8 percent, during the current year, with the primary increase in commercial loans which increased $278 million from the prior year end. Excluding the acquisitions and wholesale deposits, the Company's non-interest bearing deposits increased $155 million, or 10 percent, during the current year while interest bearing deposits increased $80 million, or 2 percent. Tangible stockholders' equity increased $34 million, or $0.28 per share, as a result of earnings retention and Company stock issued in connection with the current year acquisitions, both of which offset the decrease in accumulated other comprehensive income and increases in goodwill and intangibles from acquisitions. The Company increased its quarterly dividend during 2015 from $0.18 per share to $0.19 per share and declared a special dividend of $0.30 per share for a record dividend of $1.05 per share for 2015 compared to $0.98 per share for 2014.

The Company continued to reduce its non-performing assets and ended the year at $80.1 million which was a decrease of $9.8 million or, 11 percent, from the prior year end. The stabilizing credit quality was reflected in the $2.3 million provision for loan losses during the current year compared to $1.9 million in the prior year. Loan portfolio growth,

composition, average loan size, credit quality considerations, and other environmental factors will continue to determine the provision for loan losses.

The Company had record earnings of $116 million for 2015, which was an increase of $3.4 million, or 3 percent over the 2014 net income of $113 million. Diluted earnings per share for 2015 was $1.54, an increase of $0.03, or 2 percent, from the prior year diluted earnings per share of $1.51. The net income improvement for 2015 over 2014 was principally due to an increase in interest income from the commercial loan portfolio and an increase in non-interest income which outpaced the increase in non-interest expense.

Looking forward, the Company’s future performance will depend on many factors including economic conditions in the markets the Company serves, interest rate changes, increasing competition for deposits and loans, loan quality and growth, the impact and successful integration of acquisitions, and regulatory burden.

Acquisitions

On October 31, 2015, the Company completed the acquisition of Cañon, which resulted in goodwill of $9.8 million which was based on the estimated fair value of the assets acquired and liabilities assumed. On February 28, 2015, the Company completed the acquisition of CB, which resulted in goodwill of $1.1 million. On August 31, 2014, the Company completed the acquisition of FNBR, which resulted in a bargain purchase gain of $680 thousand. The Company's results of operations and financial condition include the acquisitions of Cañon, CB and FNBR from the acquisition dates. For additional information regarding acquisitions, see Note 22 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data."

The following table provides information on the fair value of selected classifications of assets and liabilities acquired:

(Dollars in thousands)	Cañon October 31, 2015	CB February 28, 2015	FNBR August 31, 2014
Total assets	$ 270,121	175,774	349,167
Investment securities	68,486	42,350	157,018
Loans receivable	159,759	84,689	137,488
Non-interest bearing deposits	89,083	41,779	80,037
Interest bearing deposits	148,243	105,041	229,604
Federal Home Loan Bank advances and securities sold under agreements to repurchase	—	3,292	—

Financial Condition Analysis

Assets

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

(Dollars in thousands)	December 31, 2015	December 31, 2014	$ Change	% Change
Cash and cash equivalents	$ 193,253	$ 442,409	$ (249,156)	(56)%
Investment securities, available-for-sale	2,610,760	2,387,428	223,332	9 %
Investment securities, held-to-maturity	702,072	520,997	181,075	35 %
Total investment securities	3,312,832	2,908,425	404,407	14 %
Loans receivable				
Residential real estate	688,912	611,463	77,449	13 %
Commercial	3,733,517	3,263,448	470,069	14 %
Consumer and other	656,252	613,184	43,068	7 %
Loans receivable	5,078,681	4,488,095	590,586	13 %
Allowance for loan and lease losses	(129,697)	(129,753)	56	— %
Loans receivable, net	4,948,984	4,358,342	590,642	14 %
Other assets	634,163	597,331	36,832	6 %
Total assets	$ 9,089,232	$ 8,306,507	$ 782,725	9 %

Total investment securities of $3.313 billion at December 31, 2015 increased $404 million, or 14 percent, from December 31, 2014. The increase in the investment portfolio from the prior year fourth quarter was the result of continuing to selectively purchase investment securities with the Company's excess liquidity resulting from the sustained increase in deposits. Investment securities represented 36 percent of total assets at December 31, 2015 compared to 35 percent at December 31, 2014.

Excluding the CB and Cañon acquisitions, the Company continued to experience growth in the loan portfolio which increased $346 million, or 8 percent, since December 31, 2014 with $278 million of the increase coming from growth in commercial loans. Excluding the acquisitions, the residential real estate loans increased $35.9 million, or 6 percent, during the current year and consumer and other loans increased $32.1 million, or 5 percent, during the current year. Similar to 2014, the Company benefited from the slowly improving but fragile economy and loan growth opportunities in many of its market areas, although the competition for such loans remained elevated. The Company continues to originate the loans under conservative underwriting standards and monitors the loan portfolio to maintain the risk profile within the Company's policy limits.

Liabilities

The following table summarizes the liability balances as of the dates indicated, and the amount of change from December 31, 2014:

(Dollars in thousands)	December 31, 2015	December 31, 2014	$ Change	% Change
Non-interest bearing deposits	$ 1,918,310	$ 1,632,403	$ 285,907	18 %
Interest bearing deposits	5,026,698	4,712,809	313,889	7 %
Securities sold under agreements to repurchase	423,414	397,107	26,307	7 %
Federal Home Loan Bank advances	394,131	296,944	97,187	33 %
Other borrowed funds	6,602	7,311	(709)	(10)%
Subordinated debentures	125,848	125,705	143	— %
Other liabilities	117,579	106,181	11,398	11 %
Total liabilities	$ 8,012,582	$ 7,278,460	$ 734,122	10 %

Excluding the CB and Cañon acquisitions, non-interest bearing deposits of $1.918 billion increased $155 million, or 10 percent, from December 31, 2014. Interest bearing deposits of $5.027 billion at December 31, 2015 included $230 million of wholesale deposits (i.e., brokered deposits classified as NOW, money market deposits and certificate accounts). Excluding the decrease of $19.5 million in wholesale deposits and the CB and Cañon acquisitions, core interest bearing deposits at December 31, 2015 increased $80 million, or 2 percent, from December 31, 2014. In addition to increasing deposit balances, the Company was successful in originating and retaining new core deposit accounts during 2015.

Federal Home Loan Bank ("FHLB") advances of $394 million at December 31, 2015 increased $97.2 million, or 33 percent, since December 31, 2014 due to deposit fluctuations and the Company taking advantage of attractive term borrowings that were available from FHLB of Seattle prior to its merger with FHLB of Des Moines during the second quarter of 2015. Overall, the Company has maintained low levels of FHLB advances in the past few years given the exceptional core deposit growth it has experienced.

Stockholders' Equity

The following table summarizes the stockholders' equity balances as of the dates indicated and the amount of change from December 31, 2014:

(Dollars in thousands, except per share data)	December 31, 2015	December 31, 2014	$ Change	% Change
Common equity	$ 1,074,661	$ 1,010,303	$ 64,358	6 %
Accumulated other comprehensive income	1,989	17,744	(15,755)	(89)%
Total stockholders' equity	1,076,650	1,028,047	48,603	5 %
Goodwill and core deposit intangible, net	(155,193)	(140,606)	(14,587)	10 %
Tangible stockholders' equity	$ 921,457	$ 887,441	$ 34,016	4 %
Stockholders' equity to total assets	11.85 %	12.38 %		(4)%
Tangible stockholders' equity to total tangible assets	10.31 %	10.87 %		(5)%

Book value per common share	$14.15	$13.70	$0.45	3 %
Tangible book value per common share	$12.11	$11.83	$0.28	2 %
Market price per share at end of period	$26.53	$27.77	$(1.24)	(4)%

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Tangible stockholders’ equity increased $34.0 million, or 4 percent, from a year ago, the result of earnings retention and Company stock issued in connection with the CB and Cañon acquisitions, both of which offset the decrease in accumulated other comprehensive income and increases in goodwill and intangibles from acquisitions. At December 31, 2015, the tangible book value per common share was $12.11, an increase of $0.28 per share from the prior year.

Results of Operations

Performance Summary

(Dollars in thousands, except per share data)	Years ended December 31, 2015	December 31, 2014
Net income	$116,127	112,755
Diluted earnings per share	$1.54	1.51
Return on average assets (annualized)	1.36 %	1.42 %
Return on average equity (annualized)	10.84 %	11.11 %

Net income for the twelve months ended December 31, 2015 was a record $116.1 million, an increase of $3.4 million, or 3 percent, from the $112.8 million of net income for the same period in the prior year. Diluted earnings per share for the twelve months ended December 31, 2015 was $1.54 per share, an increase of $0.03, or 2 percent, from the diluted earnings per share for the prior year.

Income Summary

The following table summarizes revenue for the periods indicated, including the amount and percentage changes from December 31, 2014:

(Dollars in thousands)	Years ended December 31, 2015	December 31, 2014	$ Change	% Change
Net interest income				
Interest income	$319,681	$299,919	$19,762	7 %
Interest expense	29,275	26,966	2,309	9 %
Total net interest income	290,406	272,953	17,453	6 %
Non-interest income				
Service charges, loan fees, and other fees	61,597	58,785	2,812	5 %
Gain on sale of loans	26,389	19,797	6,592	33 %
Loss on sale of investments	19	(188)	207	(110)%
Other income	10,756	11,908	(1,152)	(10)%
Total non-interest income	98,761	90,302	8,459	9 %
	$389,167	$363,255	$25,912	7 %
Net interest margin (tax-equivalent)	4.00 %	3.98 %		

Net Interest Income

Interest income for 2015 increased $19.8 million, or 7 percent, from the prior year and was principally due to an increase in interest income from commercial loans. Current year interest income of $165 million from commercial loans increased $19.3 million, or 13 percent, from the prior year and was primarily the result of an increased volume of commercial loans. Current year interest income of $91.1 million on investment securities decreased $2.0 million, or 2 percent, over the same period last year. On a tax-equivalent basis, the current year interest income of $118.8 million on investment securities increased $2.8 million, or 2 percent, over the prior year.

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Interest expense for 2015 increased $2.3 million, or 9 percent, from the prior year and was primarily due to the interest expense associated with the interest rate swaps undertaken to reduce the Company's sensitivity to rising interest rates. At year end, the Company had interest rate swaps with total notional amounts of $260 million, such interest rate swaps including two separate contracts with delayed start accrual periods that began in October 2014 and November 2015. The Company designated wholesale deposits as the cash flow hedge for its interest rate swaps and the related interest expense is included in wholesale deposits. Excluding the impact of the interest rate swaps, interest expense for 2015 decreased by $1.7 million, or 7 percent, from the prior year. The total funding cost (including non-interest bearing deposits) for the current year was 40 basis points compared to 39 basis points for the prior year.

The net interest margin as a percentage of earning assets, on a tax-equivalent basis, for the current year was 4.00 percent, an increase of 2 basis points from the prior year net interest margin of 3.98 percent. The 2 basis points increase was attributable to a combination of items including a shift in earning assets to the higher yielding loan portfolio and an increased yield on the investment securities portfolio. In addition, the lower yield on core deposits offset the increased interest expense from the interest rate swaps. Excluding the effects of the interest rate swaps, the current year cost of funds was 33 basis points compared to 38 basis points in the prior year.

Non-interest Income

Non-interest income of $98.8 million for the current year increased $8.5 million, or 9 percent, over the same period last year. Service charges and other fees of $61.6 million for the current year increased $2.8 million, or 5 percent, from last year and was driven by the increased number of deposit accounts and higher usage of deposit services by customers. The gain of $26.4 million on the sale of residential loans for the current year increased $6.6 million, or 33 percent, from the prior year which was attributable to an increase in mortgage refinancing and purchase activity. Other income of $10.8 million for the current year decreased $1.2 million, or 10 percent, over the prior year due to a decrease in gain on sale of OREO and insurance proceeds recognized in the prior year fourth quarter from a bank-owned life insurance policy. Included in other income was operating revenue of $123 thousand from OREO and gains of $986 thousand from the sales of OREO, which totaled $1.1 million for 2015, compared to $2.3 million for the same period in the prior year.

Non-interest Expense

The following table summarizes non-interest expense for the periods indicated, including the amount and percentage changes from December 31, 2014:

(Dollars in thousands)	Years ended December 31, 2015	December 31, 2014	$ Change	% Change
Compensation and employee benefits	$ 134,409	$ 118,571	$ 15,838	13 %
Occupancy and equipment	31,149	27,498	3,651	13 %
Advertising and promotions	8,661	7,912	749	9 %
Data processing	5,833	6,607	(774)	(12)%
Other real estate owned	3,693	2,568	1,125	44 %
Regulatory assessments and insurance	5,283	5,064	219	4 %
Core deposit intangible amortization	2,964	2,811	153	5 %
Other expenses	44,765	41,648	3,117	7 %
Total non-interest expense	$ 236,757	$ 212,679	$ 24,078	11 %

Compensation and employee benefits expense for the current year increased $15.8 million, or 13 percent, from last year due to the increased number of employees, primarily from the acquired banks, additional benefit costs and annual salary increases. Occupancy and equipment expense increased $3.7 million, or 13 percent, as a result of increased costs associated with acquisitions and equipment expense related to additional information technology infrastructure. Outsourced data processing expense decreased $774 thousand, or 12 percent, from the prior year as a result of a

decrease in conversion-related expenses and outsourced data processing expense from an acquired bank. OREO expense of $3.7 million in the current year increased $1.1 million, or 44 percent, from the prior year. OREO expenses continue to fluctuate based on the level of activity in various quarters. OREO expense for 2015 included $1.8 million of operating expenses, $1.6 million of fair value write-downs, and $349 thousand of loss from the sales of OREO. OREO expense for 2014 included $1.4 million of operating expenses, $691 thousand of fair value write-downs, and $442 thousand of loss from the sales of OREO. Other expense of $44.8 million for the current year increased by $3.1 million, or 7 percent, from the prior year primarily due to increases in conversion- and acquisition-related expenses.

Efficiency Ratio

The efficiency ratio was 55.40 percent for 2015 compared to 54.31 percent for 2014. The increase in the efficiency ratio resulted primarily from compensation expense from increased acquired bank employees and salary increases outpacing the increase in net interest income primarily from commercial loans and non-interest income principally from the increase in gain on sale of loans.

Provision for Loan Losses

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

(Dollars in thousands)	Provision for Loan Losses	Net Charge-Offs	ALLL as a Percent of Loans	Accruing Loans 30-89 Days Past Due as a Percent of Loans	Non-Performing Assets to Total Sub-sidiary Assets
Fourth quarter 2015	$411	$1,482	2.55%	0.38%	0.88%
Third quarter 2015	826	577	2.68%	0.37%	0.97%
Second quarter 2015	282	(381)	2.71%	0.59%	0.98%
First quarter 2015	765	662	2.77%	0.71%	1.07%
Fourth quarter 2014	191	1,070	2.89%	0.58%	1.08%
Third quarter 2014	360	364	2.93%	0.39%	1.21%
Second quarter 2014	239	332	3.11%	0.44%	1.30%
First quarter 2014	1,122	744	3.20%	1.05%	1.37%

The provision for loan losses was $2.3 million for the current year, an increase of $372 thousand, or 19 percent, from the same period in the prior year. Net charged-off loans during 2015 were $2.3 million, a decrease of $170 thousand from 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2014 COMPARED TO DECEMBER 31, 2013

Income Summary

The following table summarizes revenue for the periods indicated, including the amount and percentage changes from December 31, 2013:

(Dollars in thousands)	Years ended December 31, 2014	December 31, 2013	$ Change	% Change
Net interest income				
Interest income	$299,919	$263,576	$36,343	14%
Interest expense	26,966	28,758	(1,792)	(6)%
Total net interest income	272,953	234,818	38,135	16%
Non-interest income				
Service charges, loan fees, and other fees	58,785	54,460	4,325	8%
Gain on sale of loans	19,797	28,517	(8,720)	(31)%
Loss on sale of investments	(188)	(299)	111	(37)%
Other income	11,908	10,369	1,539	15%
Total non-interest income	90,302	93,047	(2,745)	(3)%
	$363,255	$327,865	$35,390	11%
Net interest margin (tax-equivalent)	3.98%	3.48%		

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Net Interest Income
Interest income for 2014 increased $36.3 million, or 14 percent, from the prior year and was principally due to the decrease in premium amortization on investment securities and increased income from commercial loans. Interest income on investment securities benefited from a reduction of $36.6 million in premium amortization during 2014 compared to the prior year. Interest income for 2014 on commercial loans increased $18.2 million, or 14 percent, from the prior year and was primarily the result of an increase in the volume of commercial loans.

Interest expense for 2014 decreased $1.8 million, or 6 percent, from the prior year and was primarily attributable to the decreases in interest rates on certificate of deposits and lower volume of borrowings, such benefit partially offset by the increased costs associated with an interest rate swap that began interest expense accruals in October 2014. The total funding cost (including non-interest bearing deposits) for 2014 was 39 basis points compared to 42 basis points for the prior year.

The net interest margin as a percentage of earning assets, on a tax-equivalent basis, for 2014 was 3.98 percent, a 50 basis points increase from the net interest margin of 3.48 percent for 2013. The increase in the net interest margin was due to the increased yield on the investment portfolio combined with the shift in earning assets to the higher yielding loan portfolio. The premium amortization for 2014 accounted for a 40 basis points reduction in the net interest margin, compared to an 89 basis points reduction in the net interest margin for the same period last year.

Non-interest Income
Non-interest income of $90.3 million for 2014 decreased $2.7 million, or 3 percent, over the prior year. Service charges and other fees of $58.8 million for 2014 increased $4.3 million, or 8 percent, from the prior year and was primarily the result of an increase in the number of deposit accounts. Gain of $19.8 million on the sale of residential loans for 2014 decreased $8.7 million, or 31 percent, from 2013 as a consequence of the slowdown in refinance activity. Other income for 2014 of $11.9 million, increased $1.5 million, or 15 percent, from the prior year as a result of a current year bargain purchase gain, proceeds from a bank-owned life insurance policy, and other income which was partially offset by the decrease in OREO income. Included in other income was operating revenue of $204 thousand from OREO and gain of $2.1 million from the sale of OREO, a combined total of $2.3 million for 2014 compared to $3.5 million for the prior year.

Non-interest Expense
The following table summarizes non-interest expense for the periods indicated, including the amount and percentage changes from December 31, 2013:

(Dollars in thousands)	Years ended December 31, 2014	December 31, 2013	$ Change	% Change
Compensation and employee benefits	$118,571	$104,221	$14,350	14 %
Occupancy and equipment	27,498	24,875	2,623	11 %
Advertising and promotions	7,912	6,913	999	14 %
Data processing	6,607	4,493	2,114	47 %
Other real estate owned	2,568	7,196	(4,628)	(64)%
Regulatory assessments and insurance	5,064	6,362	(1,298)	(20)%
Core deposit intangible amortization	2,811	2,401	410	17 %
Other expenses	41,648	38,856	2,792	7 %
Total non-interest expense	$212,679	$195,317	$17,362	9 %

Compensation and employee benefits expense for 2014 increased $14.4 million, or 14 percent, from the prior year due to the increased number of employees from acquired banks, additional benefit costs and annual salary increases. Occupancy and equipment expense for 2014 increased $2.6 million, or 11 percent, over the prior year as a result of

bank acquisitions and increases in equipment expense related to additional information and technology infrastructure. Advertising and promotions expense for 2014 increased $999 thousand from the prior year primarily due to the FNBR acquisition and recent marketing promotions at a number of the Bank divisions. Data processing expense for 2014 increased $2.1 million, or 47 percent, from the prior year as a result of the acquired banks' outsourced data processing expense, conversion-related expenses and general increases in data processing expense. OREO expense of $2.6 million in 2014 decreased $4.6 million, or 64 percent, from the prior year. OREO expense for 2014 included $1.4 million of operating expenses, $691 thousand of fair value write-downs, and $442 thousand of loss on sale of OREO. Other expense for 2014 increased by $2.8 million, or 7 percent, from the prior year primarily from increases in employee expenses from acquired banks and increases in consulting and advisory services.

Efficiency Ratio

The efficiency ratio was 54.31 percent for 2014 and 54.51 percent for 2013. The improvement in the efficiency ratio was the result of the increase in net interest income from the shift in earning assets from investment securities to the higher yielding loans and decreases in premium amortization on the investment portfolio. Such increases in net interest income outpaced the increase in non-interest expense from compensation expense and the decrease in non-interest income driven by the decrease in refinance activity.

Provision for Loan Losses

The provision for loan losses was $1.9 million for 2014, a decrease of $5.0 million, or 72 percent, from the prior year. Net charged-off loans during 2014 was $2.5 million, a decrease of $4.9 million from 2013.

ADDITIONAL MANAGEMENT'S DISCUSSION AND ANALYSIS

Investment Activity

Investment securities classified as available-for-sale are carried at estimated fair value and investment securities classified as held-to-maturity are carried at amortized cost. Unrealized gains or losses, net of tax, on available-for-sale securities are reflected as an adjustment to other comprehensive income. The Company's investment securities are summarized below:

	December 31, 2015		December 31, 2014		December 31, 2013		December 31, 2012		December 31, 2011	
(Dollars in thousands)	Carrying Amount	Percent	Carrying Amount	Percent	Carrying Amount	Percent	Carrying Amount	Percent	Carrying Amount	Percent
Available-for-sale										
U.S. government and federal agency	$47,451	1 %	$44	— %	$—	— %	$202	— %	$208	— %
U.S. government sponsored enterprises	93,167	3 %	21,945	1 %	10,628	— %	17,480	— %	31,155	1 %
State and local governments	885,019	27 %	997,969	34 %	1,385,078	43 %	1,214,518	33 %	1,064,655	34 %
Corporate bonds	384,163	12 %	314,854	11 %	442,501	14 %	288,795	8 %	62,237	2 %
Collateralized debt obligations	—	— %	—	— %	—	— %	1,708	— %	5,366	— %
Residential mortgage-backed securities	1,200,960	36 %	1,052,616	36 %	1,384,622	43 %	2,160,302	59 %	1,963,122	63 %
Total available-for-sale	2,610,760	79 %	2,387,428	82 %	3,222,829	100 %	3,683,005	100 %	3,126,743	100 %
Held-to-maturity										
State and local governments	702,072	21 %	520,997	18 %	—	— %	—	— %	—	— %
Total held-to-maturity	702,072	21 %	520,997	18 %	—	— %	—	— %	—	— %
Total investment securities	$3,312,832	100 %	$2,908,425	100 %	$3,222,829	100 %	$3,683,005	100 %	$3,126,743	100 %

The Company's investment portfolio is primarily comprised of state and local government securities and residential mortgage-backed securities. State and local government securities are largely exempt from federal income tax and the

Company's maximum federal statutory rate of 35 percent is used in calculating the tax-equivalent yields on the tax-exempt securities. Residential mortgage-backed securities are typically short, weighted-average life U.S. agency collateralized mortgage obligations that provide the Company with ongoing liquidity as scheduled and pre-paid principal is received on the securities.

State and local government securities carry different risks that are not as prevalent in other security types. The Company evaluates the investment grade quality of its securities in accordance with regulatory guidance. Investment grade securities are those where the issuer has an adequate capacity to meet the financial commitments under the security for the projected life of the investment. An issuer has an adequate capacity to meet financial commitments if the risk of default by the obligor is low and the full and timely payment of principal and interest are expected. In assessing credit risk, the Company may use credit ratings from Nationally Recognized Statistical Rating Organizations ("NRSRO" entities such as Standard and Poor's ["S&P"] and Moody's) as support for the evaluation; however, they are not solely relied upon. There have been no significant differences in the Company's internal evaluation of the creditworthiness of any issuer when compared with the ratings assigned by the NRSROs.

The following table stratifies the state and local government securities by the associated NRSRO ratings. The highest issued rating was used to categorize the securities in the table for those securities where the NRSRO ratings were not at the same level.

	December 31, 2015		December 31, 2014	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
S&P: AAA / Moody's: Aaa	$ 366,961	374,470	363,840	374,870
S&P: AA+, AA, AA- / Moody's: Aa1, Aa2, Aa3	936,947	971,717	868,990	908,334
S&P: A+, A, A- / Moody's: A1, A2, A3	239,371	252,292	233,751	248,592
S&P: BBB+, BBB, BBB- / Moody's: Baa1, Baa2, Baa3	2,858	3,017	—	—
Not rated by either entity	12,673	13,036	16,781	17,119
Below investment grade	—	—	—	—
Total	$ 1,558,810	1,614,532	1,483,362	1,548,915

State and local government securities largely consist of both taxable and tax-exempt general obligation and revenue bonds. The following table stratifies the state and local government securities by the associated security type.

	December 31, 2015		December 31, 2014	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
General obligation - unlimited	$ 831,518	862,863	765,710	803,152
General obligation - limited	262,803	274,177	271,428	284,865
Revenue	423,171	434,610	391,902	405,104
Certificate of participation	28,245	29,634	35,610	36,823
Other	13,073	13,248	18,712	18,971
Total	$ 1,558,810	1,614,532	1,483,362	1,548,915

The following table outlines the five states in which the Company owns the highest concentrations of state and local government securities.

	December 31, 2015		December 31, 2014	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Texas	$ 211,023	218,051	208,129	216,483
Washington	179,173	187,949	150,691	159,259
Michigan	156,426	162,862	115,564	121,535
California	105,510	108,235	109,057	112,367

Pennsylvania	81,637	83,380	107,261	110,444
All other states	825,041	854,055	792,660	828,827
Total	$ 1,558,810	1,614,532	1,483,362	1,548,915

The following table presents the carrying amount and weighted-average yield of available-for-sale and held-to-maturity investment securities by contractual maturity at December 31, 2015. Weighted-average yields are based upon the amortized cost of securities and are calculated using the interest method which takes into consideration premium amortization, discount accretion and mortgage-backed securities' prepayment provisions. Weighted-average yields on tax-exempt investment securities exclude the federal income tax benefit.

	One Year or Less		After One through Five Years		After Five through Ten Years		After Ten Years		Residential Mortgage-Backed Securities		Total
(Dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
Available-for-sale											
U.S. government and federal agency	$—	—%	$32	1.92%	$12,951	1.01%	$34,468	0.34%	$—	—%	$47,451
U.S. government sponsored enterprises	—	—%	93,167	1.93%	—	—%	—	—%	—	—%	93,167
State and local governments	54,332	2.10%	94,003	2.08%	118,932	3.36%	617,752	4.32%	—	—%	885,019
Corporate bonds	86,898	1.91%	297,265	2.03%	—	—%	—	—%	—	—%	384,163
Residential mortgage-backed securities	—	—%	—	—%	—	—%	—	—%	1,200,960	2.09%	1,200,960
Total available-for-sale	141,230	1.98%	484,467	2.02%	131,883	3.12%	652,220	4.10%	1,200,960	2.09%	2,610,760
Held-to-maturity											
State and local governments	—	—%	—	—%	25,073	2.55%	676,999	4.05%	—	—%	702,072
Total held-to-maturity	—	—%	—	—%	25,073	2.55%	676,999	4.05%	—	—%	702,072
Total investment securities	$141,230	1.98%	$484,467	2.02%	$156,956	3.03%	$1,329,219	4.08%	$1,200,960	2.09%	$3,312,832

Interest income from investment securities consisted of the following:

(Dollars in thousands)	Years ended December 31, 2015	December 31, 2014	December 31, 2013
Taxable interest	$40,200	45,920	31,591
Tax-exempt interest	50,886	47,132	42,921
Total interest income	$91,086	93,052	74,512

For additional information on investment securities, see Notes 1 and 2 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data."

Other-Than-Temporary Impairment on Securities Analysis

Non-marketable equity securities. Non-marketable equity securities largely consist of capital stock issued by the FHLB of Des Moines and are evaluated for impairment whenever events or circumstances suggest the carrying value may not be recoverable. Based on the Company's evaluation of its investments in non-marketable equity securities as

of December 31, 2015, the Company determined that none of such securities had other-than-temporary impairment.

Debt securities. In evaluating debt securities for other-than-temporary impairment losses, management assesses whether the Company intends to sell the security or if it is more-likely-than-not that the Company will be required to sell the debt security. In so doing, management considers contractual constraints, liquidity, capital, asset/liability management and securities portfolio objectives. For debt securities with limited or inactive markets, the impact of macroeconomic conditions in the U.S. upon fair value estimates includes higher risk-adjusted discount rates and changes in credit ratings provided by NRSRO. In June 2015, S&P reaffirmed its AA+ rating of U.S. government long-term debt, and the outlook remains stable. In October 2015, Moody's reaffirmed its Aaa rating of U.S. government long-term debt and the outlook remains stable. In April 2015, Fitch reaffirmed its AAA rating of U.S. government long-term debt and the outlook remains stable. S&P, Moody's and Fitch have similar credit ratings and outlooks with respect to certain long-term debt instruments issued by Federal National Mortgage Association (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”) and other U.S. government agencies linked to the long-term U.S. debt.

The following table separates investment securities with an unrealized loss position at December 31, 2015 into two categories: investments purchased prior to 2015 and those purchased during 2015. Of those investments purchased prior to 2015, the fair market value and unrealized gain or loss at December 31, 2014 is also presented.

(Dollars in thousands)	December 31, 2015 Fair Value	Unrealized Loss	Unrealized Loss as a Percent of Fair Value	December 31, 2014 Fair Value	Unrealized Loss	Unrealized Loss as a Percent of Fair Value
Temporarily impaired securities purchased prior to 2015						
U.S. government and federal agency	$2	$—	— %	$3	$—	— %
State and local governments	261,906	(8,848)	(3)%	267,784	(5,895)	(2)%
Corporate bonds	103,650	(1,905)	(2)%	108,802	(514)	— %
Residential mortgage-backed securities	288,654	(3,704)	(1)%	379,467	(2,007)	(1)%
Total	$654,212	$(14,457)	(2)%	$756,056	$(8,416)	(1)%
Temporarily impaired securities purchased during 2015						
U.S. government and federal agency	$42,493	$(432)	(1)%			
U.S. government sponsored enterprises	60,010	(163)	— %			
State and local governments	80,490	(1,452)	(2)%			
Corporate bonds	138,570	(1,172)	(1)%			
Residential mortgage-backed securities	494,779	(5,064)	(1)%			
Total	$816,342	$(8,283)	(1)%			
Temporarily impaired securities						
U.S. government and federal agency	$42,495	$(432)	(1)%			
U.S. government sponsored enterprises	60,010	(163)	— %			
State and local governments	342,396	(10,300)	(3)%			
Corporate bonds	242,220	(3,077)	(1)%			
Residential mortgage-backed securities	783,433	(8,768)	(1)%			
Total	$1,470,554	$(22,740)	(2)%			

With respect to severity, the following table provides the number of debt securities and amount of unrealized loss in the various ranges of unrealized loss as a percent of book value at December 31, 2015:

(Dollars in thousands)	Number of Debt Securities	Unrealized Loss
Greater than 10.0%	3	$(1,049)
5.1% to 10.0%	27	(3,532)
0.1% to 5.0%	525	(18,159)
Total	555	$(22,740)

With respect to the duration of the impaired debt securities, the Company identified 149 securities which have been continuously impaired for the twelve months ending December 31, 2015. The valuation history of such securities in the prior year(s) was also reviewed to determine the number of months in the prior year(s) in which the identified securities were in an unrealized loss position.

The following table provides details of the 149 debt securities which have been continuously impaired for the twelve months ended December 31, 2015, including the most notable loss for any one bond in each category.

(Dollars in thousands)	Number of Debt Securities	Unrealized Loss for 12 Months Or More	Most Notable Loss
U.S. government and federal agency	1	$—	$—
State and local governments	124	(8,077)	(755)
Corporate bonds	7	(1,265)	(448)
Residential mortgage-backed securities	17	(1,542)	(591)
Total	149	$(10,884)	

Based on the Company's analysis of its impaired debt securities as of 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. A substantial portion of the debt securities with unrealized losses at December 31, 2015 were issued by Fannie Mae, Freddie Mac, Government National Mortgage Association (“Ginnie Mae”) and other agencies of the U.S. government or have credit ratings issued by one or more of the NRSRO entities in the four highest credit rating categories. All of the Company's impaired debt securities at December 31, 2015 have been determined by the Company to be investment grade.

Lending Activity

The Company focuses its lending activities primarily on the following types of loans: 1) first-mortgage, conventional loans secured by residential properties, particularly single-family; 2) commercial lending, including agriculture, that concentrates on targeted businesses; and 3) installment lending for consumer purposes (e.g., home equity, automobile, etc.). Supplemental information regarding the Company’s loan portfolio and credit quality based on regulatory classification is provided in the section captioned “Loans by Regulatory Classification” included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The regulatory classification of loans is based primarily on the type of collateral for the loans. Loan information included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” is based on the Company’s loan segments and classes, which are based on the purpose of the loan, unless otherwise noted as a regulatory classification.

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

	December 31, 2015		December 31, 2014		December 31, 2013		December 31, 2012		December 31, 2011	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Residential real estate loans	$688,912	14 %	$611,463	14 %	$577,589	15 %	$516,467	16 %	$516,807	16 %
Commercial loans										
Real estate	2,633,953	53 %	2,337,548	54 %	2,049,247	52 %	1,655,508	51 %	1,672,059	50 %
Other commercial	1,099,564	22 %	925,900	21 %	852,036	22 %	623,397	19 %	623,868	19 %
Total	3,733,517	75 %	3,263,448	75 %	2,901,283	74 %	2,278,905	70 %	2,295,927	69 %
Consumer and other										

loans										
Home equity	420,901	9 %	394,670	9 %	366,465	9 %	403,925	12 %	440,569	13 %
Other consumer	235,351	5 %	218,514	5 %	217,501	5 %	198,128	6 %	212,832	6 %
Total	656,252	14 %	613,184	14 %	583,966	14 %	602,053	18 %	653,401	19 %
Loans receivable	5,078,681	103 %	4,488,095	103 %	4,062,838	103 %	3,397,425	104 %	3,466,135	104 %
Allowance for loan and lease losses	(129,697)	(3)%	(129,753)	(3)%	(130,351)	(3)%	(130,854)	(4)%	(137,516)	(4)%
Loans receivable, net	$4,948,984	100 %	$4,358,342	100 %	$3,932,487	100 %	$3,266,571	100 %	$3,328,619	100 %

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The stated maturities or first repricing term (if applicable) for the loan portfolio at December 31, 2015 was as follows:

(Dollars in thousands)	Residential Real Estate	Commercial	Consumer and Other	Total
Variable rate maturing or repricing				
In one year or less	$215,855	1,052,875	272,748	1,541,478
After one year through five years	166,153	1,290,851	88,403	1,545,407
Thereafter	12,861	191,090	7,362	211,313
Fixed rate maturing				
In one year or less	112,914	393,237	129,136	635,287
After one year through five years	120,985	555,905	150,373	827,263
Thereafter	60,144	249,559	8,230	317,933
Total	$688,912	3,733,517	656,252	5,078,681

Residential Real Estate Lending
The Company's lending activities consist of the origination of both construction and permanent loans on residential real estate. The Company actively solicits residential real estate loan applications from real estate brokers, contractors, existing customers, customer referrals, and on-line applications. The Company's lending policies generally limit the maximum loan-to-value ratio on residential mortgage loans to 80 percent of the lesser of the appraised value or purchase price. Policies allow for higher loan-to-values with appropriate risk mitigation such as documented compensating factors, credit enhancement, etc. For loans held for sale, the Company complies with the investor's loan-to-value guidelines. The Company also provides interim construction financing for single-family dwellings. These loans are supported by a term take-out commitment.

Consumer Land or Lot Loans
The Company originates land and lot acquisition loans to borrowers who intend to construct their primary residence on the respective land or lot. These loans are generally for a term of three to five years and are secured by the developed land or lot with the loan-to-value limited to the lesser of 75 percent of the appraised value or 75 percent of the cost.

Unimproved Land and Land Development Loans
Although the Company has originated very few unimproved land and land development loans since the economic downturn in 2008, the Company may originate such loans on properties intended for residential and commercial use where improved real estate market conditions have occurred. These loans are typically made for a term of 18 months to two years and are secured by the developed property with a loan-to-value not to exceed the lesser of 75 percent of cost or 65 percent of the appraised discounted bulk sale value upon completion of the improvements. The projects under development are inspected on a regular basis and advances are made on a percentage-of-completion basis. The loans are made to borrowers with real estate development experience and appropriate financial strength. Generally, the Company requires that a certain percentage of the development be pre-sold or that construction and term take-out commitments are in place prior to funding the loan. Loans made on unimproved land are generally made for a term of five to ten years with a loan-to-value not to exceed the lesser of 50 percent of appraised value or 50 percent of cost.

Residential Builder Guidance Lines
The Company provides Builder Guidance Lines that are comprised of pre-sold and spec-home construction and lot acquisition loans. The spec-home construction and lot acquisition loans are limited to a specific number and maximum amount. Generally, the individual loans will not exceed a one year maturity. The homes under construction are inspected on a regular basis and advances made on a percentage-of-completion basis.

Commercial Real Estate Loans

Loans are made to purchase, construct and finance commercial real estate properties. These loans are generally made to borrowers who own and will occupy the property and generally have a loan-to-value up to the lesser of 75 percent of the appraised value or 75 percent of the cost and require a minimum 1.2 times debt service coverage margin. Loans to finance investment or income properties are made but require additional equity and generally have a loan-to-value up to the lesser of 70 percent of appraised value or 70 percent of cost and require a higher debt service coverage margin commensurate with the specific property and projected income.

Consumer Lending

The majority of consumer loans are secured by real estate, automobiles, or other assets. The Company intends to continue making such loans because of their short-term nature, generally between three months and five years. Moreover, interest rates on consumer loans are generally higher than on residential mortgage loans. The Company also originates second mortgage and home equity loans, especially to existing customers in instances where the first and second mortgage loans are less than 80 percent of the current appraised value of the property.

Home Equity Loans

The Company's home equity loans of $421 million and $395 million as of December 31, 2015 and 2014, respectively, consist of 1-4 family junior lien mortgages and first and junior lien lines of credit secured by residential real estate. At December 31, 2015, the home equity loan portfolio consisted of 78 percent variable interest rate and 22 percent fixed interest rate loans. Approximately 53 percent of the home equity loans were in a first lien status with the remaining 47 percent in junior lien status. Approximately 15 percent of the home equity loans were closed-end amortizing loans and 85 percent were open-end, revolving home equity lines of credit. At December 31, 2014, the home equity loan portfolio consisted of 70 percent variable interest rate and 30 percent fixed interest rate loans. Approximately 51 percent of the home equity loans were in a first lien status with the remaining 49 percent in junior lien status. Approximately 17 percent of the home equity loans were closed-end amortizing loans and 83 percent were open-end, revolving home equity lines of credit.

Prior to 2014, home equity lines of credit were generally originated with maturity terms from 10 to 15 years. At origination, borrowers chose a variable interest rate or fixed interest rate for the full term of the line of credit, or a fixed interest rate for the first 3 or 5 years from the origination date which then converts to a variable interest rate for the remaining term of such home equity lines of credit. During the draw period, a borrower with a variable interest rate term had the option of converting to a fixed interest rate for all or a portion of the remaining term to maturity. Beginning in 2014, home equity lines of credit are originated with maturity terms of 15 years. At origination, borrowers can choose a variable interest rate that changes quarterly, or after the first 3, 5 or 10 years from the origination date.

The draw period for home equity lines of credit usually exists from origination to maturity. During the draw period, the Company has home equity lines of credit where the borrowers pay interest only and home equity lines of credit where borrowers pay principal and interest.

Credit Risk Management

The Company is committed to a conservative management of the credit risk within the loan portfolio, including the early recognition of problem loans. The Company's credit risk management includes stringent credit policies, individual loan approval limits, limits on concentrations of credit, and committee approval of larger loan requests. Management practices also include regular internal and external credit examinations, identification and review of individual loans and leases experiencing deterioration of credit quality, procedures for the collection of non-performing assets, quarterly monitoring of the loan portfolio, semi-annual review of loans by industry, and periodic stress testing of the loans secured by real estate. Federal and state regulatory safety and soundness examinations are conducted annually.

The Company's loan policy and credit administration practices establish standards and limits for all extensions of credit that are secured by interests in or liens on real estate, or made for the purpose of financing the construction of real property or other improvements. Ongoing monitoring and review of the loan portfolio is based on current information, including: the borrowers' and guarantors' creditworthiness, value of the real estate and other collateral, the project's performance against projections, and monthly inspections by Company employees or external parties until the real estate project is complete.

Monitoring of the junior lien and home equity lines of credit portfolios includes evaluating payment delinquency, collateral values, bankruptcy notices and foreclosure filings. Additionally, the Company places junior lien mortgages and junior lien home equity lines of credit on non-accrual status when there is evidence that the associated senior lien is 90 days past due or is in the process of foreclosure, regardless of the junior lien delinquency status.

Loan Approval Limits

Individual loan approval limits have been established for each lender based on the loan types and experience of the individual. Each bank division has an Officer Loan Committee consisting of senior lenders and members of senior management. Each of the Bank divisions' Officer Loan Committees has loan approval authority between $250,000 and $1,000,000. Each of the Bank divisions' Advisory Boards has loan approval authority up to $2,000,000. Loans, or a combination of loans, including new and renewed, exceeding these limits and up to $10,000,000 are subject to approval by the Company's Executive Loan Committee consisting of the Bank divisions' senior loan officers and the Company's Chief Credit Administrator. Loans, or a combination of loans, including new and renewed, greater than $10,000,000 are subject to approval by the Bank's Board of Directors. Under banking laws, loans to one borrower and related entities are limited to a prescribed percentage of the unimpaired capital and surplus of the Bank.

Interest Reserves

Interest reserves are used to periodically advance loan funds to pay interest charges on the outstanding balance of the related loan. As with any extension of credit, the decision to establish a loan-funded interest reserve upon origination of construction loans, including residential construction and land, lot and other construction loans, is based on prudent underwriting, including the feasibility of the project, expected cash flow, creditworthiness of the borrower and guarantors, and the protection provided by the real estate and other underlying collateral. Interest reserves provide an effective means for addressing the cash flow characteristics of construction loans. In response to the downturn in the housing market and potential impact upon construction lending, the Company discourages the creation or continued use of interest reserves.

Interest reserves are advanced provided the related construction loan is performing as expected. Loans with interest reserves may be extended, renewed or restructured only when the related loan continues to perform as expected and meets the prudent underwriting standards identified above. Such renewals, extension or restructuring are not permitted in order to keep the related loan current.

In monitoring the performance and credit quality of a construction loan, the Company assesses the adequacy of any remaining interest reserve, and whether the use of an interest reserve remains appropriate in the presence of emerging weakness and associated risks in the construction loan.

The ongoing accrual and recognition of uncollected interest as income continues only when facts and circumstances continue to reasonably support the contractual payment of principal or interest. Loans are typically designated as non-accrual when the collection of the contractual principal or interest is unlikely and has remained unpaid for ninety days or more. For such loans, the accrual of interest and its capitalization into the loan balance will be discontinued.

The Company had $65.2 million and $48.1 million of loans with remaining interest reserves of $1.5 million and $1.0 million as of December 31, 2015 and 2014, respectively. During 2015, the Company extended, renewed or restructured 3 loans with interest reserves, such loans having an aggregate outstanding principal balance of $2.2 million as of December 31, 2015. During 2014, the Company extended, renewed or restructured 4 loans with interest reserves, such loans having an aggregate outstanding principal balance of $7.9 million as of December 31, 2014. Such actions were based on prudent underwriting standards and not to keep the loans current. As of December 31, 2015, the Company had 2 construction loans totaling $768 thousand with interest reserves that are currently non-performing or which are potential problem loans.

Loan Purchases and Sales

Fixed rate, long-term mortgage loans are generally sold in the secondary market. The Company is active in the secondary market, primarily through the origination of conventional, Rural Development, Federal Housing Administration and Department of Veterans Affairs residential mortgages. The sale of loans in the secondary mortgage market reduces the Company’s risk of holding long-term, fixed rate loans during periods of rising interest rates. In connection with conventional loan sales, the Company typically sells the majority of mortgage loans originated with servicing released. The Company has also been very active in generating commercial Small Business Administration loans, and other commercial loans, with a portion of those loans sold to investors. The Company has not originated any type of subprime mortgages, either for the loan portfolio or for sale to investors. In addition, the Company has not purchased investment securities collateralized with subprime mortgages. The Company does not actively purchase loans from other financial institutions, and substantially all of the Company’s loans receivable are with customers in the Company’s geographic market areas.

Loan Origination and Other Fees

In addition to interest earned on loans, the Company receives fees for originating loans. Loan fees generally are a percentage of the principal amount of the loan and are charged to the borrower, and are normally deducted from the proceeds of the loan. Loan origination fees are generally 1.0 percent to 1.5 percent on residential mortgages and 0.5 percent to 1.5 percent on commercial loans. Consumer loans require a fixed fee amount as well as a minimum interest amount. The Company also receives other fees and charges relating to existing loans, which include charges and fees collected in connection with loan modifications.

Appraisal and Evaluation Process

The Company’s loan policy and credit administration practices have adopted and implemented the applicable legal and regulatory requirements, which establishes criteria for obtaining appraisals or evaluations (new or updated), including transactions that are otherwise exempt from the appraisal requirements.

Each of the Bank divisions monitor conditions, including supply and demand factors, in the real estate markets served so they can react quickly to changing market conditions to mitigate potential losses from specific credit exposures within the loan portfolio. Evidence of the following real estate market conditions and trends is obtained from lending personnel and third party sources:

- demographic indicators, including employment and population trends;
- foreclosures, vacancy, construction and absorption rates;
- property sales prices, rental rates, and lease terms;
- current tax assessments;
- economic indicators, including trends within the lending areas; and
- valuation trends, including discount and capitalization rates.

Third party information sources include federal, state, and local governments and agencies thereof, private sector economic data vendors, real estate brokers, licensed agents, sales, rental and foreclosure data tracking services.

The time between ordering an appraisal or evaluation and receipt from third party vendors is typically two to six weeks for residential property depending on geographic market and four to six weeks for non-residential property. For real estate properties that are of highly specialized or limited use, significantly complex or large, additional time beyond the typical times may be required for new appraisals or evaluations (new or updated).

As part of the Company's credit administration and portfolio monitoring practices, the Company's regular internal and external credit examinations review a significant number of individual loan files. Appraisals and evaluations (new or updated) are reviewed to determine whether the timeliness, methods, assumptions, and findings are reasonable and in compliance with the Company's loan policy and credit administration practices. Such reviews include the adequacy of the steps taken by the Company to ensure that the individuals who perform appraisals and evaluations (new or updated) are appropriately qualified and are not subject to conflicts of interest. If there are any deficiencies noted in the reviews, they are reported to the Bank's Board of Directors and prompt corrective action is taken.

Non-performing Assets

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

(Dollars in thousands)	At or for the Years ended December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Other real estate owned	$26,815	27,804	26,860	45,115	78,354
Accruing loans 90 days or more past due					
Residential real estate	—	35	429	451	59
Commercial	2,051	105	160	791	1,168
Consumer and other	80	74	15	237	186
Total	2,131	214	604	1,479	1,413
Non-accrual loans					
Residential real estate	8,073	6,798	10,702	14,237	11,881
Commercial	36,510	48,138	61,577	68,887	109,641
Consumer and other	6,550	6,946	9,677	13,809	12,167
Total	51,133	61,882	81,956	96,933	133,689
Total non-performing assets [1]	$80,079	89,900	109,420	143,527	213,456
Non-performing assets as a percentage of subsidiary assets	0.88 %	1.08 %	1.39 %	1.87 %	2.92 %
Allowance for loan and lease losses as a percentage of non-performing loans	244 %	209 %	158 %	133 %	102 %
Accruing loans 30-89 days past due	$19,413	25,904	32,116	27,097	49,086
Accruing troubled debt restructurings	$63,590	69,129	81,110	100,151	98,859
Non-accrual troubled debt restructurings	$27,057	33,714	42,461	50,925	65,584
Interest income [2]	$2,471	3,005	4,122	5,161	7,441

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[1] As of December 31, 2015, non-performing assets have not been reduced by U.S. government guarantees of $2.3 million.

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

Non-performing assets at December 31, 2015 were $80.1 million, a decrease of $9.8 million, or 11 percent, from a year ago. Early stage delinquencies (accruing loans 30-89 days past due) of $19.4 million at December 31, 2015 decreased $6.5 million from the prior year end.

Most of the Company's non-performing assets are secured by real estate, and based on the most current information available to management, including updated appraisals or evaluations (new or updated), the Company believes the value of the underlying real estate collateral is adequate to minimize significant charge-offs or losses to the Company. The Company evaluates the level of its non-performing loans, the values of the underlying real estate and other collateral, and related trends in internal and external environmental factors and net charge-offs in determining the adequacy of the ALLL. Through pro-active credit administration, the Company works closely with its borrowers to seek favorable resolution to the extent possible, thereby attempting to minimize net charge-offs or losses to the Company. The Company continues to maintain an adequate allowance while working to reduce non-performing loans.

Construction loans, a regulatory classification, accounted for 34 percent of the Company's non-accrual loans as of December 31, 2015. Land, lot and other construction loans, a regulatory classification, were 94 percent of the non-accrual construction loans. Of the Company's $17.6 million of non-accrual construction loans at December 31, 2015, 91 percent of such loans had collateral properties securing the loans in Western Montana. Consistent with the gradual economic recovery, the upscale primary, secondary and other housing markets, as well as the associated construction and building industries show improved activity after several years of decline. As the housing market (rental and owner-occupied) and related industries continue to recover from the downturn, the Company continues to reduce its exposure to loss in the land, lot and other construction loan portfolio.

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

For additional information on accounting policies relating to non-performing assets and impaired loans, see Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data."

Impaired Loans

Loans are designated impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement and therefore, the Company has serious doubts as to the ability of such borrowers to fulfill the contractual obligation. Impaired loans include non-performing loans (i.e., non-accrual loans and accruing loans ninety days or more past due) and accruing loans under ninety days past due where it is probable payments will not be received according to the loan agreement (e.g., troubled debt restructuring).

Impaired loans were $141 million and $161 million as of December 31, 2015 and 2014, respectively. The ALLL includes specific valuation allowances of $8.1 million and $11.6 million of impaired loans as of December 31, 2015 and 2014, respectively. Of the total impaired loans at December 31, 2015, there were 22 significant commercial real estate and other commercial loans that accounted for $59.0 million, or 42 percent, of the impaired loans. The 22 loans were collateralized by 138 percent of the loan value, the majority of which had appraisals or evaluations (new or updated) during the last year, such appraisals reviewed at least quarterly taking into account current market conditions. Of the total impaired loans at December 31, 2015, there were 159 loans aggregating $84.0 million, or 60 percent, whereby the borrowers had more than one impaired loan.

Restructured Loans

A restructured loan is considered a troubled debt restructuring (“TDR”) if the creditor, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company had TDR loans of $90.6 million and $103 million as of December 31, 2015 and 2014, respectively. The Company’s TDR loans are considered impaired loans of which $27.1 million and $33.7 million as of December 31, 2015 and 2014, respectively, are designated as non-accrual.

Each restructured debt is separately negotiated with the borrower and includes terms and conditions that reflect the borrower’s prospective ability to service the debt as modified. The Company discourages the use of the multiple loan strategy when restructuring loans regardless of whether or not the loans are designated as TDRs.

Other Real Estate Owned

The book value prior to the acquisition of collateral and transfer of the loan into OREO during 2015 was $8.9 million of which $1.6 million was residential real estate loans, $5.9 million was commercial loans, and $1.4 million was consumer loans. The fair value of the loan collateral acquired in foreclosure during 2015 was $8.0 million of which $1.5 million was residential real estate, $5.5 million was commercial, and $1.0 million was consumer loans. The following table sets forth the changes in OREO for the periods indicated:

(Dollars in thousands)	Years ended December 31, 2015	December 31, 2014	December 31, 2013
Balance at beginning of period	$ 27,804	26,860	45,115
Acquisitions	974	3,928	1,203
Additions	7,989	11,493	15,266
Capital improvements	1,710	1,661	79
Write-downs	(1,575)	(691)	(3,639