GLACIER BANCORP INC
Form 10-Q
May 06, 2016

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

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

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

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

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

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

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
The number of shares of Registrant’s common stock outstanding on April 18, 2016 was 76,168,388. No preferred shares are issued or outstanding.

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ABBREVIATIONS/ACRONYMS

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

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

(Dollars in thousands, except per share data)	March 31, 2016	December 31, 2015
Assets		
Cash on hand and in banks	$104,222	117,137
Federal funds sold	1,400	6,080
Interest bearing cash deposits	45,239	70,036
Cash and cash equivalents	150,861	193,253
Investment securities, available-for-sale	2,604,625	2,610,760
Investment securities, held-to-maturity	691,663	702,072
Total investment securities	3,296,288	3,312,832
Loans held for sale	40,484	56,514
Loans receivable	5,197,193	5,078,681
Allowance for loan and lease losses	(130,071)	(129,697)
Loans receivable, net	5,067,122	4,948,984
Premises and equipment, net	192,951	194,030
Other real estate owned	22,085	26,815
Accrued interest receivable	47,363	44,524
Deferred tax asset	55,773	58,475
Core deposit intangible, net	13,758	14,555
Goodwill	140,638	140,638
Non-marketable equity securities	24,199	27,495
Other assets	69,220	71,117
Total assets	$9,120,742	9,089,232
Liabilities		
Non-interest bearing deposits	$1,887,004	1,918,310
Interest bearing deposits	5,129,190	5,026,698
Securities sold under agreements to repurchase	445,960	423,414
Federal Home Loan Bank advances	313,969	394,131
Other borrowed funds	6,633	6,602
Subordinated debentures	125,884	125,848
Accrued interest payable	3,608	3,517
Other liabilities	114,814	114,062
Total liabilities	8,027,062	8,012,582
Stockholders' Equity		
Preferred shares, $0.01 par value per share, 1,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value per share, 117,187,500 shares authorized	762	761
Paid-in capital	736,664	736,368
Retained earnings - substantially restricted	350,933	337,532
Accumulated other comprehensive income	5,321	1,989
Total stockholders' equity	1,093,680	1,076,650
Total liabilities and stockholders' equity	$9,120,742	9,089,232
Number of common stock shares issued and outstanding	76,168,388	76,086,288

See accompanying notes to unaudited condensed consolidated financial statements.

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GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)	Three Months ended March 31, 2016	March 31, 2015
Interest Income		
Investment securities	$23,883	22,959
Residential real estate loans	8,285	7,761
Commercial loans	44,503	39,022
Consumer and other loans	7,710	7,744
Total interest income	84,381	77,486
Interest Expense		
Deposits	4,795	4,147
Securities sold under agreements to repurchase	318	241
Federal Home Loan Bank advances	1,652	2,195
Other borrowed funds	18	27
Subordinated debentures	892	772
Total interest expense	7,675	7,382
Net Interest Income	76,706	70,104
Provision for loan losses	568	765
Net interest income after provision for loan losses	76,138	69,339
Non-Interest Income		
Service charges and other fees	14,331	12,999
Miscellaneous loan fees and charges	1,021	1,157
Gain on sale of loans	5,992	5,430
Gain on sale of investments	108	5
Other income	2,800	3,102
Total non-interest income	24,252	22,693
Non-Interest Expense		
Compensation and employee benefits	36,941	32,244
Occupancy and equipment	6,676	6,060
Advertising and promotions	2,125	1,927
Data processing	3,373	2,551
Other real estate owned	390	758
Regulatory assessments and insurance	1,508	1,305
Core deposit intangibles amortization	797	731
Other expenses	10,546	9,921
Total non-interest expense	62,356	55,497
Income Before Income Taxes	38,034	36,535
Federal and state income tax expense	9,352	8,865
Net Income	$28,682	27,670
Basic earnings per share	$0.38	0.37
Diluted earnings per share	$0.38	0.37
Dividends declared per share	$0.20	0.18
Average outstanding shares - basic	76,126,257	75,206,348
Average outstanding shares - diluted	76,173,417	75,244,959

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Three Months ended March 31, 2016	March 31, 2015
Net Income	$28,682	27,670
Other Comprehensive Income, Net of Tax		
Unrealized gains on available-for-sale securities	13,598	5,181
Reclassification adjustment for gains included in net income	(61)	(4)
Net unrealized gains on available-for-sale securities	13,537	5,177
Tax effect	(5,244)	(1,979)
Net of tax amount	8,293	3,198
Unrealized losses on derivatives used for cash flow hedges	(9,928)	(5,993)
Reclassification adjustment for losses included in net income	1,829	1,251
Net unrealized losses on derivatives used for cash flow hedges	(8,099)	(4,742)
Tax effect	3,138	1,827
Net of tax amount	(4,961)	(2,915)
Total other comprehensive income, net of tax	3,332	283
Total Comprehensive Income	$32,014	27,953

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months ended March 31, 2016 and 2015

(Dollars in thousands, except per share data)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings Substantially Restricted	Accumulated Other Compre-hensive Income	Total
Balance at December 31, 2014	75,026,092	$ 750	708,356	301,197	17,744	1,028,047
Comprehensive income	—	—	—	27,670	283	27,953
Cash dividends declared ($0.18 per share)	—	—	—	(13,631)	—	(13,631)
Stock issuances under stock incentive plans	60,294	1	(290)	—	—	(289)
Stock issued in connection with acquisitions	443,644	4	10,772	—	—	10,776
Stock-based compensation and related taxes	—	—	668	—	—	668
Balance at March 31, 2015	75,530,030	$ 755	719,506	315,236	18,027	1,053,524
Balance at December 31, 2015	76,086,288	$ 761	736,368	337,532	1,989	1,076,650
Comprehensive income	—	—	—	28,682	3,332	32,014
Cash dividends declared ($0.20 per share)	—	—	—	(15,281)	—	(15,281)
Stock issuances under stock incentive plans	82,100	1	(1)	—	—	—
Stock-based compensation and related taxes	—	—	297	—	—	297
Balance at March 31, 2016	76,168,388	$ 762	736,664	350,933	5,321	1,093,680

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Three Months ended March 31, 2016	March 31, 2015
Operating Activities		
Net income	$28,682	27,670
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	568	765
Net amortization of investment securities premiums and discounts	6,594	6,282
Loans held for sale originated or acquired	(179,471)	(192,332)
Proceeds from sales of loans held for sale	202,605	193,667
Gain on sale of loans	(5,992)	(5,430)
Gain on sale of investments	(108)	(5)
Stock-based compensation expense, net of tax benefits	43	347
Excess tax benefits from stock-based compensation	(20)	(102)
Depreciation of premises and equipment	3,730	3,206
Loss (gain) on sale of other real estate owned and write-downs, net	52	(2)
Amortization of core deposit intangibles	797	731
Net increase in accrued interest receivable	(2,839)	(1,871)
Net decrease in other assets	195	2,619
Net increase (decrease) in accrued interest payable	91	(393)
Net increase in other liabilities	2,803	2,944
Net cash provided by operating activities	57,730	38,096
Investing Activities		
Sales of available-for-sale securities	20,539	35,558
Maturities, prepayments and calls of available-for-sale securities	156,779	161,179
Purchases of available-for-sale securities	(163,654)	(311,895)
Maturities, prepayments and calls of held-to-maturity securities	11,155	460
Purchases of held-to-maturity securities	(1,223)	(50,005)
Principal collected on loans	346,124	332,693
Loans originated or acquired	(465,644)	(454,511)
Net addition of premises and equipment and other real estate owned	(2,726)	(3,889)
Proceeds from sale of other real estate owned	4,457	3,245
Net proceeds from sale of non-marketable equity securities	3,297	514
Net cash received in acquisitions	—	19,712
Net cash used in investing activities	(90,896)	(266,939)

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands)	Three Months ended March 31, 2016	March 31, 2015
Financing Activities		
Net increase (decrease) in deposits	$71,186	(33,240)
Net increase in securities sold under agreements to repurchase	22,546	27,188
Net decrease in short-term Federal Home Loan Bank advances	(80,000)	—
Repayments of long-term Federal Home Loan Bank advances	(162)	(731)
Net increase (decrease) in other borrowed funds	67	(572)
Cash dividends paid	(22,883)	(22,557)
Excess tax benefits from stock-based compensation	20	102
Stock-based compensation activity	—	(290)
Net cash used in financing activities	(9,226)	(30,100)
Net decrease in cash and cash equivalents	(42,392)	(258,943)
Cash and cash equivalents at beginning of period	193,253	442,409
Cash and cash equivalents at end of period	$150,861	183,466
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$7,584	7,775
Cash paid during the period for income taxes	—	—
Supplemental Disclosure of Non-Cash Investing Activities		
Sale and refinancing of other real estate owned	$474	256
Transfer of loans to other real estate owned	178	3,217
Dividend declared but not paid	15,281	13,631
Acquisitions		
Fair value of common stock shares issued	—	10,776
Cash consideration for outstanding shares	—	12,219
Fair value of assets acquired	—	174,637
Liabilities assumed	—	152,779

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the Company’s financial condition as of March 31, 2016, the results of operations and comprehensive income for the three month periods ended March 31, 2016 and 2015, and changes in stockholders’ equity and cash flows for the three month periods ended March 31, 2016 and 2015. The condensed consolidated statement of financial condition of the Company as of December 31, 2015 has been derived from the audited consolidated statements of the Company as of that date.

The accompanying unaudited condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results anticipated for the year ending December 31, 2016.

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

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

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

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

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

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

Loans Receivable

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

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

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

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

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

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

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

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

For additional information relating to loans, see Note 3.

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

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

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

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

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

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

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

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

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

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

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in global, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in experience, ability, and depth of lending management and other relevant staff;
- Changes in the volume and severity of past due and nonaccrual loans;
- Changes in the quality of the Company’s loan review system;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company’s existing portfolio.

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

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

Reclassifications

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

Impact of Recent Authoritative Accounting Guidance

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

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

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

In January 2016, FASB amended FASB ASC Topic 825, Financial Instruments. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2017. Early adoption is only permitted under certain circumstances outlined in the amendments. A reporting entity should apply the amendments by means of a cumulative-effect adjustment to the Company's statement of financial condition as of the beginning of the reporting year of adoption. The amendments related to equity securities without readily determinable fair values should be applied prospectively. The Company is currently evaluating the impact of these amendments, but does not expect them to have a material effect on the Company's financial position or results of operations.

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

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

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

Note 2. Investment Securities

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

	March 31, 2016			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. government and federal agency	$45,957	18	(288)	45,687
U.S. government sponsored enterprises	68,100	673	—	68,773
State and local governments	870,239	36,720	(5,826)	901,133
Corporate bonds	443,632	738	(1,495)	442,875
Residential mortgage-backed securities	1,140,413	8,434	(2,690)	1,146,157
Total available-for-sale	2,568,341	46,583	(10,299)	2,604,625
Held-to-maturity				
State and local governments	691,663	33,081	(4,554)	720,190
Total held-to-maturity	691,663	33,081	(4,554)	720,190
Total investment securities	$3,260,004	79,664	(14,853)	3,324,815

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

Total held-to-maturity	702,072	31,863	(4,422)	729,513
Total investment securities	$3,290,085	72,928	(22,740)	3,340,273

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The following table presents the amortized cost and fair value of available-for-sale and held-to-maturity securities by contractual maturity at March 31, 2016. Actual maturities may differ from expected or contractual maturities since issuers have the right to prepay obligations with or without prepayment penalties.

	March 31, 2016			
	Available-for-Sale		Held-to-Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$150,150	150,764	—	—
Due after one year through five years	503,233	503,879	—	—
Due after five years through ten years	144,750	149,613	28,545	29,370
Due after ten years	629,795	654,212	663,118	690,820
	1,427,928	1,458,468	691,663	720,190
Residential mortgage-backed securities [1]	1,140,413	1,146,157	—	—
Total	$2,568,341	2,604,625	691,663	720,190

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

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

	Three Months ended	
(Dollars in thousands)	March 31, 2016	March 31, 2015
Available-for-sale		
Proceeds from sales and calls of investment securities	$58,623	62,703
Gross realized gains [1]	800	39
Gross realized losses [1]	(739)	(35)
Held-to-maturity		
Proceeds from calls of investment securities	11,155	460
Gross realized gains [1]	47	1
Gross realized losses [1]	—	—

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

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

	March 31, 2016					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. government and federal agency	$2,291	(5)	39,478	(283)	41,769	(288)
State and local governments	50,820	(444)	145,853	(5,382)	196,673	(5,826)
Corporate bonds	208,048	(1,227)	33,786	(268)	241,834	(1,495)
Residential mortgage-backed securities	259,495	(1,655)	65,081	(1,035)	324,576	(2,690)
Total available-for-sale	$					