GLACIER BANCORP INC
Form 10-K
February 28, 2013
Table of Contents

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, 2012 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	¨

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, 2012 (the last business day of the most recent second quarter), was $1,078,136,586 (based on the average bid and ask price as quoted on the NASDAQ Global Select Market at the close of business on that date).

As of February 18, 2013, there were issued and outstanding 71,954,982 shares of the Registrant’s common stock. No preferred shares are issued or outstanding.

Document Incorporated by Reference

Portions of the 2013 Annual Meeting Proxy Statement dated March 25, 2013 are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

Table of Contents

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 108 locations in Montana, Idaho, Wyoming, Colorado, Utah and Washington through eleven divisions of its wholly-owned bank subsidiary, Glacier Bank (“Bank”). The Company offers a wide range of banking products and services, including transaction and savings deposits, real estate, commercial, agriculture, and consumer loans, mortgage origination services, and retail brokerage services. The Company serves individuals, small to medium-sized businesses, community organizations and public entities. 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 bank foreclosed properties for legal protection and administrative purposes and the remaining properties are currently held for sale. GORE is included in the Bank operating segment due to its insignificant activity. The Company owns the following trust subsidiaries, each of which issued trust preferred securities as Tier 1 capital instruments: Glacier Capital Trust II, Glacier Capital Trust III, Glacier Capital Trust IV, Citizens (ID) Statutory Trust I, Bank of the San Juans Bancorporation Trust I, First Company Statutory Trust 2001 and First Company Statutory Trust 2003. The trust subsidiaries are not included in the Company’s consolidated financial statements. As of December 31, 2012, none of the Company's subsidiaries were engaged in any operations in foreign countries.

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

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 and Pending 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: On October 2, 2009, First Company and its subsidiary, First Bank of Wyoming, formerly First National Bank & Trust, was acquired by the Company. On December 1, 2008, Bank of the San Juans Bancorporation and its subsidiary, Bank of the San Juans ("San Juans") in Durango, Colorado, was acquired by the Company.

On February 25, 2013, the Company announced the signing of a definitive agreement to acquire First State Bank, a community bank based in Wheatland, Wyoming. First State Bank provides community banking services to individuals and businesses from three banking offices in Wheatland, Torrington and Guernsey, Wyoming. As of December 31, 2012, First State Bank had total assets of $281 million, gross loans of $179 million and total deposits of $249 million. The transaction provides for the payment to Wheatland Bankshares, Inc. shareholders of $10.62 million in cash and 1,652,000 shares of the Company's common stock, so long as the average closing price for the Company stock is between $13.50 and $16.50. Upon closing of the transaction, which is anticipated to take place in the second quarter of 2013, First State Bank will be merged into the Bank and operate as a separate bank division doing business under its existing name.

Table of Contents

Market Area

The Company has 108 locations, of which 9 are loan or administration offices, in 35 counties within 6 states including Montana, Idaho, Wyoming, Colorado, Utah, and Washington. The Company has 55 locations in Montana, 29 locations in Idaho, 14 locations in Wyoming, 3 locations in Colorado, 4 locations in Utah and 3 locations in Washington.

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

Competition

Based on the Federal Deposit Insurance Corporation ("FDIC") summary of deposits survey as of June 30, 2012, the Company has approximately 23 percent of the total FDIC insured deposits in the 13 counties that it services in Montana. In Idaho, the Company has approximately 7 percent of the deposits in the 9 counties that it services. In Wyoming, the Company has 26 percent of the deposits in the 6 counties it services. In Colorado, the Company has 10 percent of the deposits in the 2 counties it services. In Utah, the Company has 11 percent of the deposits in the 3 counties it services. In Washington, the Company has 1 percent of the deposits in the 2 counties it services.

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. Non-depository financial service institutions, primarily in the securities and insurance industries, have also become competitors for retail savings and investment funds. 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.

Employees

As of December 31, 2012, the Company employed 1,753 persons, 1,553 of whom were employed full time, none of whom were represented by a collective bargaining group. The Company provides its employees with a comprehensive benefit program, including health and dental insurance, life and accident insurance, long-term disability coverage, 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 16 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 full 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, 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 2013 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 federal Deposit Insurance Funds 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 that this section describes statutory and regulatory provisions, it is qualified by reference to those provisions. These statutes and regulations, as well as related policies, are 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, 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. The full extent to which these changes will impact the Company is not yet known. However, continued efforts to monitor and comply with new regulatory requirements add to the complexity and cost of the Company's business.

Table of Contents

Glacier Bank, the sole bank subsidiary of the Company, 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. The Company recently consolidated its bank subsidiaries which operated throughout the states of Montana, Colorado, Idaho, Utah, Washington and Wyoming, into Glacier Bank.

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. Under the Financial Services Modernization Act of 1999, a bank holding company may apply to the Federal Reserve to become a financial holding company, and thereby engage (directly or through a subsidiary) in certain expanded activities deemed financial in nature, such as securities and insurance underwriting.

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 Nonbanks. 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. 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 Wall Street Reform and Consumer Protection Act (“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, 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 Glacier 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 regulation and supervision by the Montana Department of Administration's Banking and Financial Institutions Division and the FDIC. In addition, with respect to branches of the Bank outside of Montana, Glacier is subject to regulation and supervision by the applicable state banking regulators. 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. The Bank is subject to a variety of federal and state consumer protection laws and regulations that govern their 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. 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 their 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.

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. An institution that fails to meet these standards may be subject 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. 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. 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.

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.

Tier I and Tier II Capital. Under the guidelines, an institution's capital is divided into two broad categories, Tier I capital and Tier II capital. Tier I capital generally consists of common shareholders' equity (including surplus and undivided profits), qualifying non-cumulative perpetual preferred stock, and qualified minority interests in the equity accounts of consolidated subsidiaries. Tier II capital generally consists of the allowance for loan and lease losses, hybrid capital instruments, and qualifying subordinated debt. The sum of Tier I capital and Tier II capital represents an institution's total capital. The guidelines require that at least 50 percent of an institution's total capital consist of Tier I capital.

Table of Contents

Risk-based Capital Ratios. The adequacy of an institution's capital is gauged primarily with reference to the institution's risk-weighted assets. The guidelines assign risk weightings to an institution's assets in an effort to quantify the relative risk of each asset and to determine the minimum capital required to support that risk. An institution's risk-weighted assets are then compared with its Tier I capital and total capital to arrive at a Tier I risk-based capital ratio and a Total risk-based capital ratio, respectively. The guidelines provide that an institution must have a minimum Tier I risk-based capital ratio of 4 percent and a minimum Total risk-based capital ratio of 8 percent.

Leverage Ratio. The guidelines also employ a leverage ratio, which is Tier I capital as a percentage of average total assets, less intangibles. The principal objective of the leverage ratio is to constrain the maximum degree to which banks may leverage its equity capital base. The minimum leverage ratio is 4 percent.

Prompt Corrective Action. Under the guidelines, an institution is assigned to one of five capital categories depending on its Total risk-based capital ratio, Tier I risk-based capital ratio, and leverage ratio, together with certain subjective factors. The categories range from "well capitalized" to "critically undercapitalized." Institutions that are "undercapitalized" or lower are subject to certain mandatory supervisory corrective actions. At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. During these challenging economic times, the federal banking regulators have actively enforced these provisions.

Regulatory Oversight and Examination

The Federal Reserve conducts periodic inspections of bank holding companies, which are performed both onsite and offsite. 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.

Corporate Governance and Accounting

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 ("Act") addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, the 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 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 Act's requirements and has found that such compliance, including compliance with Section 404 of the Act relating to the Company's internal control over financial reporting, has resulted in significant additional expense for the Company. The Company anticipates that it will continue to incur such 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, intended to combat terrorism, was renewed with certain amendments in 2006 ("Patriot Act"). 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.

Table of Contents

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. Bank holding companies that qualify and elect to become financial holding companies can engage in a wider variety of financial activities than permitted under previous law, particularly with respect to insurance and securities underwriting activities.

The Emergency Economic Stabilization Act of 2008

Emergency Economic Stabilization Act of 2008. In response to market turmoil and financial crises affecting the overall banking system and financial markets in the United States, the Emergency Economic Stabilization Act of 2008 (“EESA”) was enacted on October 3, 2008. EESA provides the U.S. Department of the Treasury (“Treasury”) with broad authority to implement certain actions intended to help restore stability and liquidity to the U.S. financial markets.

Troubled Asset Relief Program. Under the EESA, the Treasury has authority, among other things, to purchase up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions pursuant to the Troubled Asset Relief Program (“TARP”). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase lending to customers and to each other. Pursuant to the EESA, the Treasury was initially authorized to use $350 billion for TARP. Of this amount, the Treasury allocated $250 billion to the TARP Capital Purchase Program (“CPP”), which funds were used to purchase preferred stock from qualifying financial institutions. After receiving preliminary approval from Treasury to participate in the program, the Company elected not to participate in light of its capital position and due to its ability to raise capital successfully in private equity markets.

Temporary Liquidity Guarantee Program. Another program established pursuant to the EESA is the Temporary Liquidity Guarantee Program (“TLGP”), which 1) removed the limit on FDIC deposit insurance coverage for non-interest bearing transaction accounts through December 31, 2009, and 2) provided FDIC backing for certain types of senior unsecured debt issued from October 14, 2008 through June 30, 2009. The end-date for issuing senior unsecured debt was later extended to October 31, 2009 and the FDIC also extended the Transaction Account Guarantee portion of the TLGP through December 31, 2010. In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provides for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and expired on December 31, 2012.

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 designed to tie what banks pay for deposit insurance to the risks they pose. The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less 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 Deposit Insurance Fund (“DIF”) from 1.15 percent to 1.35 percent; requires that the DIF meet that minimum ratio of insured deposits by 2020; and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The FDIC has established a higher reserve ratio of 2 percent as a long-term goal beyond what is required by statute. The deposit insurance assessments to be paid by the Bank could increase as a result.

Insurance of Deposit Accounts. The Emergency Economic Stabilization Act of 2008 (“EESA”) included a provision for a temporary increase from $100,000 to $250,000 per depositor in deposit insurance. The temporary increase was made permanent under the Dodd-Frank Act. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. EESA also temporarily raised the limit on federal deposit insurance coverage to an unlimited amount for non-interest or low-interest bearing demand deposits. Unlimited coverage for non-interest transaction accounts expired December 31, 2012.

Recent Legislation

Dodd-Frank Wall Street Reform and Consumer Protection Act. As a result of the recent financial crises, 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 their holding companies, including the Company and the Bank. The full impact of the Dodd-Frank Act may not be known for years. Some of the provisions of the Dodd-Frank Act that may impact the Company's business are summarized below.

Table of Contents

Under the Dodd-Frank Act, trust preferred securities will generally be excluded from the Tier 1 capital of a bank holding company between $500 million and $15 billion in assets unless such securities were issued prior to May 19, 2010.

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. Except with respect to “smaller reporting companies” and participants in the CPP, the new rules applied to proxy statements relating to annual meetings of shareholders held after January 20, 2011. “Smaller reporting companies,” those with a public float of less than $75 million, are required to include the non-binding shareholder votes on executive compensation and the frequency thereof in proxy statements relating to annual meetings occurring on or after January 21, 2013.

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 regulator and complies with specified procedures to ensure compliance with the enforcement action.

The Dodd-Frank Act created a new, independent federal agency called the Bureau of Consumer Financial Protection (“CFPB”). The CFPB has broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws applicable to banks and thrifts with greater than $10 billion in assets. Smaller institutions are subject to certain rules promulgated by the CFPB but will continue to be examined and supervised by their federal banking regulators for compliance purposes.

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.

Proposed Legislation

General. Proposed legislation is introduced in almost every legislative session. Certain of such legislation could dramatically affect the regulation of the banking industry. The Company cannot predict if any such legislation will be adopted or if it is adopted how it would affect the business of the Company or the Bank. Recent history has demonstrated that new legislation or changes to existing laws or regulations usually results in a greater compliance burden and, therefore, generally increases the cost of doing business.

Basel III. Basel III updates and revises significantly the current international bank capital accords (so-called “Basel I” and “Basel II”). Basel III is intended to be implemented by participating countries for large, internationally active banks. However, standards consistent with Basel III will be formally implemented in the United States through a series of regulations, some of which may apply to other banks. Among other things, 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. Basel III also increases minimum capital ratios. Capital buffers are added to each capital ratio to enable banks to absorb losses during a stressed period while remaining above their regulatory minimum ratios. The full impact of the Basel III rules cannot be determined at this time as many regulations are still being written and the implementation date has not yet been finalized.

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 as curbing inflation and combating recession, but its open market operations in U.S. government securities, control of the discount rate applicable to borrowings from the Federal

Reserve, and establishment of reserve requirements against certain deposits, influence the growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on the Company or the Bank cannot be predicted with certainty.

Table of Contents

Item 1A. Risk Factors

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

The continued challenging economic environment could have a material adverse effect on the Company's future results of operations or the market price of stock.
The national economy, and the financial services sector in particular, are still facing significant challenges. Substantially all of the Company's loans are to businesses and individuals in Montana, Idaho, Wyoming, Utah, Colorado and Washington markets facing many of the same challenges as the national economy, including continued unemployment and slow recovery in commercial and residential real estate. Although some economic indicators are improving both nationally and in the Company's markets, there remains substantial uncertainty regarding when and how strongly a sustained economic recovery will occur, and whether there will be another recession. These economic conditions can cause borrowers to be unable to pay their loans. The inability of borrowers to repay loans can erode earnings by reducing net interest income and by requiring the Company to add to its allowance for loan and lease losses ("ALLL" or "allowance"). While the Company cannot accurately predict how long these conditions may exist, the challenging economy could continue to present risks for some time for the industry and Company. A further deterioration in economic conditions in the nation as a whole or in the Company's markets could result in the following consequences, any of which could have an adverse impact, which may be material, on the Company's business, financial condition, results of operations and prospects, and could also cause the market price of the Company's stock to decline:

- 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 and increasing the potential severity of loss in the event of loan defaults;
- demand for banking products and services may decline; and
- low cost or non-interest bearing deposits may decrease.

The allowance for loan and lease losses may not be adequate to cover actual loan losses, which could adversely affect earnings.
The Company maintains an allowance in an amount that it believes is adequate to provide for losses in the loan portfolio. While the Company 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 Company 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 Company'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 Company will suffer losses on defaulted loans beyond the amounts provided for in the ALLL. This, in turn, could require material increases in the Company's provision for loan losses and ALLL. By closely monitoring credit quality, the Company 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 continue or worsen, 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. 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 banking regulators, as an integral part of their supervisory function, periodically review the Company’s loan portfolio and the adequacy of the ALLL. These regulatory agencies may require the Company to recognize further loan loss provisions or charge-offs based upon their judgments, which may be different from the Company’s judgments. Any increase in the ALLL would have an adverse effect, which could be material, on the Company’s financial condition and results of operations.

The Company has a high concentration of loans secured by real estate, so any further 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 Company has a high degree of concentration in loans secured by real estate. A sluggish recovery 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 Company's ability to recover on these loans by selling or disposing of the underlying real estate collateral is adversely impacted by declining real estate values, which increases the likelihood that the Company 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, perhaps materially.

Table of Contents

There can be no assurance the Company will be able to continue paying dividends on the common stock at recent levels.
The Company declared dividends of $0.53 per share in 2012 and declared dividends of $0.52 per share in 2011. 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. 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 sufficiency of earnings.

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. Furthermore, there can be no assurance that the Company can successfully complete such transactions, since they are subject to regulatory review and approval.

The expiration of unlimited FDIC insurance on certain noninterest-bearing transaction accounts may increase the Company's interest expense and reduce liquidity.
On December 31, 2012, unlimited FDIC insurance on certain noninterest-bearing transaction accounts under the Transaction Account Guarantee (“TAG”) program expired. Prior to its expiration, all funds under TAG in a noninterest-bearing transaction account were insured in full by the FDIC from December 31, 2010, through December 31, 2012. This temporary unlimited coverage was in addition to, and separate from, the coverage of at least $250,000 available to depositors under the FDIC's general deposit insurance rules. The reduction in FDIC insurance on these noninterest-bearing transaction accounts to the standard $250,000 maximum may cause depositors to move funds previously held in such noninterest-bearing accounts to interest-bearing accounts, which could increase the Company's costs of funds and negatively impact its results of operations, or may cause depositors to withdraw their deposits and invest funds in investments perceived as being more secure. This could reduce the Company's liquidity, or require the payment of higher interest rates to retain deposits in order to maintain liquidity and could adversely affect the Company's earnings.

The FDIC has adopted a plan to increase the federal Deposit Insurance Fund, including additional future premium increases and special assessments.
The Dodd-Frank Act broadened the base for FDIC insurance assessments and assessments are now based on the average consolidated total assets less 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 Company could increase.

Despite the FDIC’s actions to restore the Deposit Insurance Fund, the fund will 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 Company’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 Company’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.

Table of Contents

Non-performing assets could increase, which could adversely affect the Company's results of operations and financial condition.

Non-performing assets (which include OREO) adversely affect the Company's net income and financial condition in various ways. The Company does not record interest income on non-accrual loans or OREO, thereby adversely affecting its income. When the Company 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 Company to increase the provision for loan losses. An increase in the level of non-performing assets also increases the Company's risk profile and may impact the capital levels its regulators believe are appropriate in light of such risks. Continued 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 Company'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 Company'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. The Company may experience further increases in non-performing assets in the future.

A decline in the fair value of the Company's investment portfolio could adversely affect earnings.

The fair value of the Company'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 Company 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.

With relatively soft loan demand and increased market liquidity, the investment securities portfolio has grown significantly and represented 48 percent of total assets at December 31, 2012. While the Company believes that the terms of such investments have been kept relatively short, the Company is subject to elevated interest rate risk exposure if rates were to increase sharply. Further, the change in the mix of the Company's assets to more investment securities presents a different type of asset quality risk than the loan portfolio. 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.

Recent and/or future U.S. federal government credit downgrades or changes in outlook by major credit rating agencies may have an adverse effect on financial markets, including financial institutions and the financial industry.

In August 2011, Standard and Poor's downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard and Poor's downgraded from AAA to AA+ the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term United States debt. It is difficult to predict the effect of these actions, or any future downgrades or changes in outlook by Standard & Poor's or either of the other two major credit rating agencies. However, these events could impact the trading market for U.S. government securities, including U.S. agency securities, and the securities markets more broadly, and consequently could impact the value and liquidity of financial assets, including assets in the Company's investment portfolio. These actions could also create broader financial turmoil and uncertainty, which may negatively affect the global banking system and limit the availability of funding, including borrowing under securities sold under agreements to repurchase ("repurchase agreements"), at reasonable terms. In turn, this could have a material adverse effect on the Company's liquidity, financial condition and results of operations.

Fluctuating interest rates can adversely affect profitability.

The Company’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 Company’s interest rate spread, and, in turn, profitability. The Company seeks to manage its interest rate risk within well established policies and guidelines. Generally, the Company seeks an asset and liability structure that insulates net interest income from large deviations attributable to changes in market rates. However, the Company’s structures and practices to manage interest rate risk may not be effective in a highly volatile rate environment.

Interest rate swaps expose the Company to certain risks, and may not be effective in mitigating exposure to changes in interest rates.

The Company has entered into interest rate swap agreements in order to manage a portion of the risk to interest rate volatility. The Company anticipates that additional interest rate swaps may be entered into in the future. These swap agreements involve other risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, leaving the Company vulnerable to interest rate movements. There can be no assurance that these arrangements will be effective in reducing the Company’s exposure to changes in interest rates.

Table of Contents

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, 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, 2012; however, the Company incurred an impairment of goodwill of $40.2 million ($32.6 million after-tax) during the third quarter of 2011. The Company continues to maintain $106 million in goodwill on its balance sheet and there can be no assurance that future evaluations of goodwill will not result in findings of additional impairment and write-downs, which could be material. While a non-cash item, additional impairment of goodwill could have a material adverse effect on the Company’s business, financial condition and results of operations. Furthermore, additional 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.
The Company 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, encountering greater than anticipated cost of 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.

A tightening of the credit markets may make it difficult to obtain adequate funding for loan growth, which could adversely affect earnings.
A tightening of the credit markets and the inability to obtain or retain adequate funds for continued loan growth at an acceptable cost may negatively affect the Company's asset growth and liquidity position and, therefore, earnings capability. In addition to core deposit growth, maturity of investment securities and loan payments, the Company also relies on alternative funding sources through correspondent banking and borrowings with the Federal Home Loan Bank ("FHLB") to fund loan growth. In the event the economy continues to see a slow recovery, particularly in the housing market, these resources could be negatively affected, both as to price and availability, which would limit and or raise the cost of the funds available to the Company.

The Company may pursue additional capital in the future, which could dilute the holders of the Company’s outstanding common stock and may adversely affect the market price of common stock.
In the current economic environment, the Company believes it is prudent to consider alternatives for raising capital when opportunities to raise capital at attractive prices present themselves, in order to further strengthen the Company’s capital and better position itself to take advantage of opportunities that may arise in the future. Such alternatives may include issuance and sale of common or preferred stock or borrowings by the Company, with proceeds contributed to the Bank. Any such capital raising alternatives could dilute the holders of the Company’s outstanding common stock, and may adversely affect the market price of the Company’s common stock and performance measures such as earnings per share.

Business would be harmed if the Company lost the services of any of the senior management team.
The Company believes its success to date has been substantially dependent on its Chief Executive Officer ("CEO") and other members of the executive management team, and on the Presidents of its bank divisions. The loss of any of these persons could have an adverse effect on the Company’s business and future growth prospects.

Competition in the Company’s market areas may limit future success.
Commercial banking is a highly competitive business. The Company competes with other commercial banks, savings and loans, credit unions, finance, insurance and other non-depository companies operating in its market areas. The Company 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 Company. Some of the Company’s competitors have greater financial resources than the Company. If the Company is unable to effectively compete in its market areas, the Company’s business, results of operations and prospects could be adversely affected.

Table of Contents

A failure in or breach of the Company's operational or security systems, or those of the Company'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 Company's operations rely heavily on the secure processing, storage and transmission of confidential and other information on the 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 Company's online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of the Company'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 Company 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 Company has certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. The Company may be required to expend significant additional resources in the future to modify and enhance its protective measures.

Additionally, the Company 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 Company's operational systems.

Any failures, interruptions or security breaches in the Company'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 operates 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 is subject to extensive regulation, supervision and examination by federal and state banking authorities. 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.

In that regard, sweeping financial regulatory reform legislation was enacted in July 2010. Among other provisions, the new legislation 1) creates a new CFPB with broad powers to regulate consumer financial products such as credit cards and mortgages; 2) creates a Financial Stability Oversight Council comprised of the heads of other regulatory agencies; 3) will lead to new capital requirements from federal banking regulatory agencies; 4) places new limits on electronic debt card interchange fees; and 5) requires the SEC and national stock exchanges to adopt significant new corporate governance and executive compensation reforms. The new legislation and regulations are expected to increase the overall costs of regulatory compliance.

Further, 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. 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. Additionally, the Company’s business is affected significantly by the fiscal and monetary policies of the U.S. federal government and its agencies, including the Federal Reserve Board.

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.

Table of Contents

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 Board of Directors 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 Glacier Bancorp, Inc. common stock, even in circumstances where such action is favored by a majority of the Company’s shareholders.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following schedule provides information on the Company's 108 properties as of December 31, 2012:

(Dollars in thousands)	Properties Leased	Properties Owned	Net Book Value
Montana	6	49	$72,645
Idaho	11	18	22,836
Wyoming	2	12	14,801
Colorado	1	2	2,885
Utah	1	3	2,507
Washington	1	2	1,230
	22	86	$116,904

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 5 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data.”

Item 3. Legal Proceedings

The Company and its subsidiaries are parties to various claims, legal actions and complaints in the ordinary course of their businesses. 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 position or results of operations of the Company.

Item 4. Mine Safety Disclosures

Not Applicable

Table of Contents

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. The primary market makers during 2012 are listed below:

Barclays Capital Inc./Le	Credit Suisse Securities USA	D.A. Davidson & Co., Inc.
Deutsche Banc Alex Brown	Goldman, Sachs & Co.	Instinet, LLC
J.P. Morgan Securities LLC	Knight Capital Americas LLC	Latour Trading LLC
Merrill Lynch, Pierce, Fenner	Morgan Stanley & Co. LLC	RBC Capital Markets Corp.
SG Americas Securities LLC	Tradebot Systems, Inc.	UBS Securities LLC
Wedbush Securities Inc.		

The market range of high and low closing prices for the Company’s common stock for the periods indicated are shown below. As of December 31, 2012, there were approximately 1,370 shareholders of record for the Company’s common stock.

	2012		2011	
	High	Low	High	Low
First quarter	$ 15.50	$ 12.43	$ 15.94	$ 14.09
Second quarter	15.46	13.66	15.29	12.97
Third quarter	16.17	14.93	13.75	9.23
Fourth quarter	15.53	13.43	12.51	9.09

The Company paid cash dividends on its common stock of $0.53 and $0.52 per share for the years ended December 31, 2012 and 2011, respectively. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations. The following table summarizes the Company's dividends paid per quarter for the periods indicated:

	2012	2011
First quarter	0.13	0.13
Second quarter	0.13	0.13
Third quarter	0.13	0.13
Fourth quarter	0.14	0.13

Unregistered Securities
There have been no securities of the Company sold within the last three years which were not registered under the Securities Act.

Issuer Stock Purchases
The Company made no stock repurchases during 2012.

Table of Contents

Equity Compensation Plan Information

The Company currently maintains the 2005 Employee Stock Incentive Plan which was approved by the shareholders and provides for the issuance of stock-based compensation to officers, other employees and directors. Although the 1994 Director Stock Option Plan expired in March 2009, there are issued options outstanding that have not been exercised as of December 31, 2012.

The following table sets forth information regarding outstanding options and shares reserved for future issuance under the following plans as of December 31, 2012:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by the shareholders	791,440	$ 16.95	3,849,531

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 are computed assuming the reinvestment of dividends at the frequency with which dividends were paid during the applicable years.

Table of Contents

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 report.

	December 31,					Compounded Annual Growth Rate	
(Dollars in thousands, except per share data)	2012	2011	2010	2009	2008	1-Year 2012/2011	5-Year 2012/2008
Selected Statement of Financial Condition Information							
Total assets	$7,747,440	7,187,906	6,759,287	6,191,795	5,553,970	7.8 %	10.0 %
Investment securities, available-for-sale	3,683,005	3,126,743	2,395,847	1,443,817	929,147	17.8 %	41.9 %
Loans receivable, net	3,266,571	3,328,619	3,612,182	3,920,988	3,998,478	(1.9)%	(1.5)%
Allowance for loan and lease losses	(130,854)	(137,516)	(137,107)	(142,927)	(76,739)	(4.8)%	19.2 %
Goodwill and intangibles	112,274	114,384	157,016	160,196	159,765	(1.8)%	(6.2)%
Deposits	5,364,461	4,821,213	4,521,902	4,100,152	3,262,475	11.3 %	11.0 %
Federal Home Loan Bank advances	997,013	1,069,046	965,141	790,367	338,456	(6.7)%	13.1 %
Repurchase agreements and other borrowed funds	299,540	268,638	269,408	451,251	1,110,731	11.5 %	(5.7)%
Stockholders' equity	900,949	850,227	838,204	685,890	676,940	6.0 %	11.3 %
Equity per share	12.52	11.82	11.66	11.13	11.04	5.9 %	4.9 %
Equity as a percentage of total assets	11.63 %	11.83 %	12.40 %	11.08 %	12.19 %	(1.7)%	1.2 %

Table of Contents

(Dollars in thousands, except per share data)	Years ended December 31, 2012	2011	2010	2009	2008	Compounded Annual Growth Rate 1-Year 2012/2011	5-Year 2012/2008
Summary Statements of Operations							
Interest income	$253,757	280,109	288,402	302,494	302,985	(9.4)%	(3.6)%
Interest expense	35,714	44,494	53,634	57,167	90,372	(19.7)%	(21.7)%
Net interest income	218,043	235,615	234,768	245,327	212,613	(7.5)%	3.5 %
Provision for loan losses	21,525	64,500	84,693	124,618	28,480	(66.6)%	26.4 %
Non-interest income	91,496	78,199	87,546	86,474	61,034	17.0 %	7.1 %
Non-interest expense [1]	193,421	191,965	187,948	168,818	145,909	0.8 %	7.0 %
Income before income taxes [1]	94,593	57,349	49,673	38,365	99,258	64.9 %	(1.8)%
Income tax expense [1]	19,077	7,265	7,343	3,991	33,601	162.6 %	(11.5)%
Net income [1]	$75,516	50,084	42,330	34,374	65,657	50.8 %	1.9 %
Basic earnings per share [1]	$1.05	0.70	0.61	0.56	1.20	50.0 %	(4.0)%
Diluted earnings per share [1]	$1.05	0.70	0.61	0.56	1.19	50.0 %	(3.9)%
Dividends declared per share	$0.53	0.52	0.52	0.52	0.52	1.9 %	1.2 %

(Dollars in thousands)	At or for the Years ended December 31, 2012	2011	2010	2009	2008
Selected Ratios and Other Data					
Return on average assets [1]	1.01 %	0.72 %	0.67 %	0.60 %	1.31 %
Return on average equity [1]	8.54 %	5.78 %	5.18 %	4.97 %	11.63 %
Dividend payout ratio [1]	50.48 %	74.29 %	85.25 %	92.86 %	43.33 %
Average equity to average asset ratio	11.84 %	12.39 %	12.96 %	12.16 %	11.23 %
Net interest margin on average earning assets (tax equivalent)	3.37 %	3.89 %	4.21 %	4.82 %	4.70 %
Efficiency ratio [2]	54.02 %	51.34 %	51.35 %	47.47 %	49.94 %
Allowance for loan and lease losses as a percent of loans	3.85 %	3.97 %	3.66 %	3.52 %	1.88 %
Allowance for loan and lease losses as a percent of nonperforming loans	133 %	102 %	70 %	70 %	105 %
Non-performing assets as a percentage of subsidiary assets	1.87 %	2.92 %	3.91 %	4.13 %	1.46 %
Loans originated and acquired	$2,238	1,650	1,935	2,431	2,457
Number of full time equivalent employees	1,677	1,653	1,674	1,643	1,571
Number of locations	108	106	105	106	101

[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] Non-interest expense before other real estate owned expenses, core deposit intangibles amortization, goodwill impairment charges, and non-recurring expense items as a percentage of fully taxable equivalent net interest income and non-interest income, excluding gains or losses on sale of investments, other real estate owned income, and

non-recurring income items.

Table of Contents

Non-GAAP Financial Measures

In addition to the results presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), this Form 10-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.

	Year ended December 31, 2011		
(Dollars in thousands, except per share data)	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 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%

The reconciling item between the GAAP and non-GAAP financial measures was the third quarter of 2011 goodwill impairment charge (net of tax) of $32.6 million.

- The goodwill impairment charge was $40.2 million with a tax benefit of $7.6 million which resulted in a goodwill impairment charge (net of tax) of $32.6 million. The tax benefit applied only to the $19.4 million of goodwill associated with taxable acquisitions and was determined based on the Company's marginal income tax rate of 38.9 percent.
- The basic and diluted earnings per share reconciling items were determined based on the goodwill impairment charge (net of tax) divided by the weighted average diluted shares of 71,915,073.
- The goodwill impairment charge (net of tax) was included in determining earnings for both the GAAP return on average assets and GAAP return on average equity. The average assets used in the GAAP and non-GAAP return on average assets ratios were $6.923 billion and $6.931 billion for the year ended December 31, 2011, respectively. The average equity used in the GAAP and non-GAAP return on average equity ratios were $858 million and $866 million for the year ended December 31, 2011, respectively.
- The dividend payout ratio is calculated by dividing dividends declared per share by basic earnings per share. The non-GAAP dividend payout ratio uses the non-GAAP basic earnings per share for calculating the ratio.

Table of Contents

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, including as a result of a slow recovery in the housing and real estate markets in its geographic areas;
- increased loan delinquency rates;
- the risks presented by a slow economic recovery, which could adversely affect credit quality, loan collateral values, OREO values, investment values, liquidity and capital levels, dividends and loan originations;
- changes in market interest rates, which could adversely affect the Company’s net interest income and profitability;
- legislative or regulatory changes that adversely affect the Company’s business, ability to complete pending or prospective future acquisitions, limit certain sources of revenue, or increase cost of operations;
- costs or difficulties related to the completion and integration of acquisitions;
- the goodwill the Company has recorded in connection with acquisitions could become additionally impaired, which may have an adverse impact on earnings and capital;
- reduced demand for banking products and services;
- the risks presented by public stock market volatility, which could adversely affect the market price of the Company's common stock and the ability to raise additional capital in the future;
- competition from other financial services companies in the Company's markets;
- loss of services from the CEO and senior management team;
- potential interruption or breach in security of the Company's systems; 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, 2012 COMPARED TO DECEMBER 31, 2011

Highlights and Overview
The Company had all time record earnings of $75.5 million for 2012, which was an increase of $25.4 million, or 51 percent over the 2011 operating net income of $50.1 million. Diluted earnings per share for 2012 was $1.05, an increase of $0.35, or 50 percent, from the prior year diluted operating earnings per share of $0.70. The 2011 operating net income is considered a non-GAAP financial measure and resulted from a goodwill impairment charge reconciling item of $32.6 million ($40.2 million pre-tax). For additional information regarding non-GAAP financial measures relating to the goodwill impairment charge, see the section captioned “Non-GAAP Financial Measures” included in “Item 6. Selected Financial Data.” Including the goodwill impairment charge, net income for 2011 was $17.5 million.

The net income improvement for 2012 over the 2011 operating income was largely attributable to the $43.0 million reduction, or 67 percent decrease, in the provision for loan losses as a result of the improvement in credit quality. The improvement in credit quality was also reflected in the decrease in OREO expense which decreased $8.3 million, or 30 percent, over the prior year. The reduction in provision for loan losses was partially offset by the $17.6 million reduction in net interest income driven by the low interest rate environment and the increase in premium amortization (net of discount accretion) on investment securities. Although the refinance and purchase activity during 2012 caused an increase in premium amortization on the investment portfolio, there was relief in part from the increase in gain on sale of loans which increased $11.1 million, or 53 percent, from the prior year.

The real bright spot for the Company this year was the noteworthy improvement in credit quality of the loan portfolio. Non-performing assets were $144 million at year end, a decrease of $70.0 million, or 33 percent, from the prior year end and a decrease of $127 million, or 47 percent, from the Company's historically high levels in 2010. The decrease in non-performing assets was the result of the Company's continued patience and focus on actively managing the disposal of the non-performing assets.

During the current and prior two years, the low interest rate environment combined with the decline in the loan portfolio and the increase in low-yielding investment securities has put significant pressure on the Company's net interest margin. The net interest margin as a percentage of earning assets, on a tax-equivalent basis, decreased 52 basis points from 3.89 percent in 2011 to 3.37 percent in 2012. Net interest income of $218 million in 2012 decreased $17.6 million, or 7 percent, from net interest income of $236 million in 2011. The Company purchased the investment securities over the past three years to offset the weak loan demand and preserve net interest income. The majority of investment securities purchased were short weighted-average life collateralized mortgage obligations ("CMO") to allow the Company the ability to redeploy principal paydowns as loan demand returns. As a result of offsetting the decline in the loan portfolio with investment securities, the Company has both reduced the negative impact to current net interest income, while positioning the Company for future economic growth.

The loan portfolio of $3.397 billion decreased $68.7 million, or 2 percent, from the prior year end. Investment securities of $3.683 million increased $556 million, or 18 percent, from the prior year end and represented 48 percent of total assets at the end of 2012. The Company experienced another year of increased deposits with non-interest bearing deposits increasing $181 million, or 18 percent, during the year and interest bearing deposits (excluding wholesale deposits) increasing $212 million, or 7 percent, during the year. As a result of the increase in deposits, the Company required less borrowings to fund the investment growth and decreased FHLB advances by $72 million during the year. Tangible stockholders’ equity increased $52.8 million, or $0.73 per share, as a result of earnings retention and the increase in accumulated other comprehensive income. The Company increased its quarterly dividend during the fourth quarter of 2012 from $0.13 per share to $0.14 per share for a record dividend of $0.53 per share for 2012 compared to $0.52 per share for 2011.

During the second quarter of 2012, the Company combined its eleven bank subsidiaries into one bank subsidiary with eleven bank divisions. The eleven bank divisions operate with the same names and management teams as before the combination. The primary purpose of the combination was to minimize regulatory burden and free up resources to focus on delivering products and services to its customers in a faster and more efficient way. Following the combination of the bank subsidiaries, the eleven bank divisions have been focused on centralizing and standardizing processes and resources across the Company.

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 regulatory burden.

Table of Contents

Financial Condition Analysis

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

(Dollars in thousands)	December 31, 2012	December 31, 2011	$ Change	% Change
Cash and cash equivalents	$ 187,040	128,032	59,008	46 %
Investment securities, available-for-sale	3,683,005	3,126,743	556,262	18 %
Loans receivable				
Residential real estate	516,467	516,807	(340)	— %
Commercial	2,278,905	2,295,927	(17,022)	(1)%
Consumer and other	602,053	653,401	(51,348)	(8)%
Loans receivable	3,397,425	3,466,135	(68,710)	(2)%
Allowance for loan and lease losses	(130,854)	(137,516)	6,662	(5)%
Loans receivable, net	3,266,571	3,328,619	(62,048)	(2)%
Other assets	610,824	604,512	6,312	1 %
Total assets	$ 7,747,440	7,187,906	559,534	8 %

Investment securities increased $556 million, or 18 percent, from December 31, 2011. The Company continued to purchase investment securities to primarily offset the lack of loan growth and to maintain interest income. The increase in investment securities for the current quarter occurred in CMO, corporate and municipal bonds. The majority of the purchases were short weighted-average life CMOs which were significantly offset by CMO principal paydowns during the quarter. Investment securities represent 48 percent of total assets at December 31, 2012 versus 44 percent at December 31, 2011.

The heightened uncertainty with the current economy and muted loan demand continued to put pressure on the Company and was the primary cause of the decrease in the loan portfolio. During the year 2012, the loan portfolio decreased $68.7 million, or 2 percent, from total loans of $3.466 billion at December 31, 2011. The largest decrease during the year was in consumer and other loans which decreased $51.3 million, or 8 percent, from December 31, 2011 and was primarily attributable to customers paying off home equity lines of credit during the process of refinancing their home. In addition, the Company continues to reduce its exposure to land, lot and other construction loans which totaled $330 million as of December 31, 2012, a decrease of $51.2 million, or 13 percent, from the prior year end.

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

(Dollars in thousands)	December 31, 2012	December 31, 2011	$ Change	% Change
Non-interest bearing deposits	$ 1,191,933	1,010,899	181,034	18 %
Interest bearing deposits	4,172,528	3,810,314	362,214	10 %
Repurchase agreements	289,508	258,643	30,865	12 %
FHLB advances	997,013	1,069,046	(72,033)	(7)%
Other borrowed funds	10,032	9,995	37	— %
Subordinated debentures	125,418	125,275	143	— %
Other liabilities	60,059	53,507	6,552	12 %
Total liabilities	$ 6,846,491	6,337,679	508,812	8 %

Table of Contents

The Company's deposits continued to increase during the current year and over the past several years which has allowed the Company to fund the increase in the investment securities portfolio at lower funding costs. The increase in deposits during 2012 and throughout 2011 has been driven by the Company's success in generating new personal and business customer relationships, as well as existing customers retaining cash deposits for liquidity purposes due to the continued uncertainty in the current economic environment. Non-interest bearing deposits of $1.192 billion increased $181 million, or 18 percent, since December 31, 2011. Interest bearing deposits of $4.173 billion at December 31, 2012 included $758 million of wholesale deposits of which $128 million were reciprocal deposits (e.g., Certificate of Deposit Account Registry System deposits ("CDARS")). In addition to reciprocal deposits, wholesale deposits include brokered deposits classified as NOW, money market deposit and certificate accounts. Interest bearing deposits increased $362 million, or 10 percent, from December 31, 2011 and included a decrease of $41.4 million in wholesale deposits.

The Company's level and mix of borrowings has fluctuated as needed to supplement deposit growth and to fund growth in the investment securities. The decrease in funding through repurchase agreements from the prior quarter was primarily due to the decrease of $112 million in wholesale repurchase funding to a total of $4.2 million as of December 31, 2012. The wholesale repurchase agreements are utilized as a source of low cost funding and fluctuate as other lower cost funding sources are utilized. FHLB advances decreased $72.0 million since the prior year end.

Stockholders’ Equity

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

(Dollars in thousands, except per share data)	December 31, 2012	December 31, 2011	$ Change	% Change
Common equity	$ 852,987	816,740	36,247	4 %
Accumulated other comprehensive income	47,962	33,487	14,475	43 %
Total stockholders’ equity	900,949	850,227	50,722	6 %
Goodwill and core deposit intangible, net	(112,274)	(114,384)	2,110	(2)%
Tangible stockholders’ equity	$ 788,675	735,843	52,832	7 %
Stockholders’ equity to total assets	11.63 %	11.83 %		(2)%
Tangible stockholders’ equity to total tangible assets	10.33 %	10.40 %		(1)%
Book value per common share	$ 12.52	11.82	0.70	6 %
Tangible book value per common share	$ 10.96	10.23	0.73	7 %
Market price per share at end of period	$ 14.71	12.03	2.68	22 %

Tangible stockholders' equity and tangible book value per share increased $52.8 million and $0.73 per share from the prior year end, resulting in tangible stockholders' equity to tangible assets of 10.33 percent and tangible book value per share of $10.96 as of December 31, 2012. The increases were from earnings retention and an increase in accumulated other comprehensive income.

Results of Operations

Performance Summary

Net income for 2012 was $75.5 million, an increase of $25.4 million, or 51 percent, over the 2011 operating net income of $50.1 million. Operating net income is considered a non-GAAP financial measure and additional information regarding this measurement and reconciliation is provided in “Item 6. Selected Financial Data.” Diluted earnings per share for 2012 was $1.05 per share, an increase of $0.35, or 50 percent, from the prior year diluted operating earnings per share of $0.70. The net income improvement for 2012 over the 2011 operating net income was largely attributable to the $43.0 million (pre-tax) reduction in the provision for loan losses as a result of the improvement in credit quality. The reduction in provision for loan losses was partially offset by the $17.6 million (pre-tax) reduction in net interest income driven by the low interest rate environment and the increase in premium amortization (net of discount accretion) on investment securities.

Table of Contents

Income Summary

The following table summarizes revenue for the periods indicated, including the amount and percentage change from December 31, 2011:

(Dollars in thousands)	Years ended December 31, 2012	December 31, 2011	$ Change	% Change
Net interest income				
Interest income	$253,757	$280,109	$(26,352)	(9)%
Interest expense	35,714	44,494	(8,780)	(20)%
Total net interest income	218,043	235,615	(17,572)	(7)%
Non-interest income				
Service charges, loan fees, and other fees	49,706	48,113	1,593	3 %
Gain on sale of loans	32,227	21,132	11,095	53 %
Loss on sale of investments	—	346	(346)	(100)%
Other income	9,563	8,608	955	11 %
Total non-interest income	91,496	78,199	13,297	17 %
	$309,539	$313,814	$(4,275)	(1)%
Net interest margin (tax-equivalent)	3.37 %	3.89 %		

Net Interest Income

Net interest income for 2012 decreased $17.6 million, or 7 percent, over the same period last year. Interest income decreased $26.4 million, or 9 percent, while interest expense decreased $8.8 million, or 20 percent from 2011. The decrease in interest income from the prior year was principally due to the increase in premium amortization (net of discount accretion) on investment securities and the reduction in balances and yield on loans, the combination of which put further pressure on earning asset yields. Interest income was reduced by $72.0 million in premium amortization (net of discount accretion) on investment securities which was an increase of $33.9 million from the prior year. This increase in premium amortization (net of discount accretion) was the result of both the increased purchases of investment securities combined with the continued refinance activity. The decrease in interest expense during the current year was primarily attributable to the decreases in rates on interest bearing deposits and borrowings. The funding cost (including non-interest bearing deposits) for 2012 was 55 basis points compared to 74 basis points for 2011.

The net interest margin, on a tax-equivalent basis, for 2012 was 3.37 percent, a 52 basis points reduction from the net interest margin of 3.89 percent for 2011. The reduction was attributable to a lower yield and volume of loans coupled with an increase in lower yielding investment securities and higher premium amortization on investment securities, both of which outpaced the reduction in funding cost. The premium amortization in 2012 accounted for a 104 basis points reduction in the net interest margin which was an increase of 44 basis points compared to the 60 basis points reduction in the net interest margin for the same period last year.

Non-interest Income

Non-interest income of $91.5 million for 2012 increased $13.3 million, or 17 percent, over non-interest income of $78.2 million for 2011. Service charge fee income increased $1.6 million, or 3 percent, the majority of which was from higher debit card income driven by the increased number of deposit accounts. Gain on sale of loans for 2012 increased $11.1 million, or 53 percent, from 2011 due to greater refinance and loan origination activity. Included in other income was operating revenue of $355 thousand from OREO and gains of $2.0 million on the sale of OREO, which totaled $2.4 million for 2012 compared to $2.7 million for the same period in the prior year.

25

Table of Contents

Non-interest Expense

The following table summarizes non-interest expense for the periods indicated, including the amount and percentage change from December 31, 2011:

(Dollars in thousands)	Years ended December 31, 2012	December 31, 2011	$ Change	% Change
Compensation and employee benefits	$95,373	$85,691	$9,682	11 %
Occupancy and equipment	23,837	23,599	238	1 %
Advertising and promotions	6,413	6,469	(56)	(1)%
Outsourced data processing	3,324	3,153	171	5 %
Other real estate owned	18,964	27,255	(8,291)	(30)%
Federal Deposit Insurance Corporation premiums	6,085	8,169	(2,084)	(26)%
Core deposit intangible amortization	2,110	2,473	(363)	(15)%
Other expense	37,315	35,156	2,159	6 %
Total non-interest expense before goodwill impairment charge	193,421	191,965	1,456	1 %
Goodwill impairment charge	—	40,159	(40,159)	(100)%
Total non-interest expense	$193,421	$232,124	$(38,703)	(17)%

Compensation and employee benefits for 2012 increased $9.7 million, or 11 percent, and was attributable to an increase in commissions on residential real estate loan originations, a revised Company incentive program and the restoration in 2012 of certain compensation cuts made in 2011. OREO expense of $19.0 million for 2012 decreased $8.3 million, or 30 percent, from the prior year. The OREO expense for 2012 included $3.6 million of operating expenses, $13.3 million of fair value write-downs, and $2.1 million of loss on sale of OREO.

Efficiency Ratio

The Company calculates the efficiency ratio as 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. The efficiency ratio was 54 percent for 2012 and 51 percent for 2011. Although there was a significant increase in non-interest income from the the prior year, it was not enough to offset the combination of the decrease in net interest income and the increase in non-interest expense (before the goodwill impairment charge) in 2012.

Provision for Loan Losses

(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 2012	$2,275	$8,081	3.85 %	0.80 %	1.87 %
Third quarter 2012	2,700	3,499	4.01 %	0.83 %	2.33 %
Second quarter 2012	7,925	7,052	3.99 %	1.41 %	2.69 %
First quarter 2012	8,625	9,555	3.98 %	1.24 %	2.91 %
Fourth quarter 2011	8,675	9,252	3.97 %	1.42 %	2.92 %
Third quarter 2011	17,175	18,877	3.92 %	0.60 %	3.49 %
Second quarter 2011	19,150	20,184	3.88 %	1.14 %	3.68 %
First quarter 2011	19,500	15,778	3.86 %	1.44 %	3.78 %

The provision for loan losses was $21.5 million for 2012, a decrease of $43.0 million, or 67 percent, from the same period in the prior year. Net charged-off loans during the 2012 was $28.2 million, a decrease of $35.9 million from 2011. The largest category of net charge-offs was in land, lot and other construction loans which had net charge-offs of $9.8 million, or 35 percent of total net charged-off loans. Last year in this loan category, net charge-offs totaled $31.3 million.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2011 COMPARED TO DECEMBER 31, 2010

Income Summary
The following table summarizes revenue for the periods indicated, including the amount and percentage change from December 31, 2010:

(Dollars in thousands)	Years ended December 31, 2011	December 31, 2010	$ Change	% Change
Net interest income				
Interest income	$280,109	$288,402	$(8,293)	(3)%
Interest expense	44,494	53,634	(9,140)	(17)%
Total net interest income	235,615	234,768	847	— %
Non-interest income				
Service charges, loan fees, and other fees	48,113	47,946	167	— %
Gain on sale of loans	21,132	27,233	(6,101)	(22)%
Loss on sale of investments	346	4,822	(4,476)	(93)%
Other income	8,608	7,545	1,063	14 %
Total non-interest income	78,199	87,546	(9,347)	(11)%
	$313,814	$322,314	$(8,500)	(3)%
Net interest margin (tax-equivalent)	3.89 %	4.21 %		

Net Interest Income
Net interest income for 2011 remained stable compared to 2010. During 2011, interest income decreased $8.3 million, or 3 percent, while interest expense decreased $9.1 million, or 17 percent from 2010. The decrease in interest income from 2010 resulted from the increase in premium amortization coupled with the reduction in loan balances, the combination of which put further pressure on earning asset yields. Interest income also continues to reflect the Company's purchase of a significant amount of investment securities over the course of several quarters at lower yields than the loans they replaced. Interest income included $35.8 million in premium amortization (net of discount accretion) on CMOs which was an increase of $18.1 million from 2010. This increase was the result of both the increased purchases of CMOs combined with the continued refinance activity. The decrease in interest expense in 2011 was primarily attributable to the rate decreases on interest bearing deposits. The funding cost for 2011 was 87 basis points compared to 116 basis points for 2010.

The net interest margin decreased 32 basis points from 4.21 percent for 2010 to 3.89 for 2011. The reduction was attributable to a lower yield and volume of loans coupled with an increase in lower yielding investment securities and higher CMO premium amortization. The premium amortization in 2011 accounted for a 56 basis point reduction in the net interest margin compared to a 30 basis point reduction in the net interest margin for the same period in 2010.

Non-interest Income
Non-interest income of $78.2 million for 2011 decreased $9.3 million, or 11 percent, over non-interest income of $87.5 million for 2010. Gain on sale of loans for 2011 decreased $6.1 million, or 22 percent, from 2010 due to a significant reduction in refinance activity. Excluding the $2.0 million gain on the sale of merchant card servicing portfolio in 2010, other income for 2011 increased $3.1 million, or 56 percent, over 2010 of which $1.7 million was from debit card income and $1.3 million was from the combination of operating income from OREO and gain on sale of OREO.

27

Table of Contents

Non-interest Expense

The following table summarizes non-interest expense for the periods indicated, including the amount and percentage change from December 31, 2010:

(Dollars in thousands)	Years ended December 31, 2011	December 31, 2010	$ Change	% Change
Compensation and employee benefits	$85,691	$87,728	$(2,037)	(2)%
Occupancy and equipment	23,599	24,261	(662)	(3)%
Advertising and promotions	6,469	6,831	(362)	(5)%
Outsourced data processing	3,153	3,057	96	3%
Other real estate owned	27,255	22,193	5,062	23%
Federal Deposit Insurance Corporation premiums	8,169	9,121	(952)	(10)%
Core deposit intangible amortization	2,473	3,180	(707)	(22)%
Other expense	35,156	31,577	3,579	11%
Total non-interest expense before goodwill impairment charge	191,965	187,948	4,017	2%
Goodwill impairment charge	40,159	—	40,159	n/m
Total non-interest expense	$232,124	$187,948	$44,176	24%

Excluding the goodwill impairment charge, non-interest expense for 2011 increased by $4.0 million, or 2 percent, from 2010. Compensation and employee benefits for 2011 decreased $2.0 million, or 2 percent, and was the result of the reduction in full time equivalent employees. Occupancy and equipment expense decreased $662 thousand, or 3 percent, from 2010. OREO expense of $27.3 million increased $5.1 million, or 23 percent, from 2010. The OREO expense for 2011 included $5.8 million of operating expenses, $16.3 million of fair value write-downs, and $5.2 million of loss on sale of OREO. FDIC premium expense decreased $952 thousand, or 10 percent, from 2010 as a result of a change in the FDIC assessment calculation. Other expense increased $3.6 million, or 11 percent, from 2010 and was primarily driven by increases in debit card expenses and expenses associated with New Markets Tax Credits investments.

Provision for Loan Losses

The Company provisioned slightly more than the amount of net charged-off loans during 2011. The provision for loan losses was $64.5 million for 2011, a decrease of $20.2 million, or 24 percent, from 2010. Net charged-off loans during 2011 was $64.1 million, a decrease of $26.4 million from 2010. The largest category of net charge-offs was in land, lot and other construction loans which had net charge-offs of $31.3 million, or 49 percent of total net charged-off loans.

ADDITIONAL MANAGEMENT’S DISCUSSION AND ANALYSIS

Lending Activity and Practices

The Company focuses its lending activities primarily on the following types of loans: 1) first-mortgage, conventional loans secured by residential properties, particularly single-family, 2) commercial lending that concentrates on targeted businesses, and 3) installment lending for consumer purposes (e.g., auto, home equity, etc.). Supplemental information regarding the Company's loan portfolio and credit quality based on regulatory classification is provided in the section captioned “Loans by Regulatory Classification” included in “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 is based on the purpose of the loan, unless otherwise noted as a regulatory classification.

28

Table of Contents

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

(Dollars in thousands)	December 31, 2012 Amount	Percent	December 31, 2011 Amount	Percent	December 31, 2010 Amount	Percent	December 31, 2009 Amount	Percent	December 31, 2 Amount	Pe
Residential real estate loans	$516,467	15.81 %	$516,807	15.53 %	$632,877	17.52 %	$743,147	18.95 %	$783,399	19
Commercial loans										
Real estate	1,655,508	50.68 %	1,672,059	50.23 %	1,796,503	49.73 %	1,894,690	48.33 %	1,930,849	48
Other commercial	623,397	19.08 %	623,868	18.74 %	654,588	18.12 %	724,579	18.48 %	644,980	16
Total	2,278,905	69.76 %	2,295,927	68.97 %	2,451,091	67.85 %	2,619,269	66.81 %	2,575,829	64
Consumer and other loans										
Home equity	403,925	12.37 %	440,569	13.24 %	483,137	13.38 %	501,866	12.80 %	507,839	12
Other consumer	198,128	6.07 %	212,832	6.39 %	182,184	5.04 %	199,633	5.09 %	208,150	5.
Total	602,053	18.44 %	653,401	19.63 %	665,321	18.42 %	701,499	17.89 %	715,989	17
Loans receivable	3,397,425	104.01 %	3,466,135	104.13 %	3,749,289	103.79 %	4,063,915	103.65 %	4,075,217	10
Allowance for loan and lease losses	(130,854)	(4.01)%	(137,516)	(4.13)%	(137,107)	(3.79)%	(142,927)	(3.65)%	(76,739)	(1
Loans receivable, net	$3,266,571	100.00 %	$3,328,619	100.00 %	$3,612,182	100.00 %	$3,920,988	100.00 %	$3,998,478	10

The stated maturities or first repricing term (if applicable) for the loan portfolio at December 31, 2012 was as follows:

(Dollars in thousands)	Residential Real Estate	Commercial	Consumer and Other	Totals
Variable rate maturing or repricing in				
One year or less	$198,989	755,798	257,309	1,212,096
One to five years	99,553	792,941	21,557	914,051
Thereafter	14,991	147,532	6,497	169,020
Fixed rate maturing in				
One year or less	110,397	216,043	117,147	443,587
One to five years	76,270	260,526	176,842	513,638
Thereafter	16,267	106,065	22,701	145,033
Totals	$516,467	2,278,905	602,053	3,397,425

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 the loan-to-value to be above 80 percent of the loan when insured by a private mortgage insurance company. 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.

Table of Contents

Unimproved Land and Land Development Loans

Although unimproved land and land development loans have not been originated in the past four years, where real estate market conditions warrant, the Company may originate such loans on properties intended for residential and commercial use. These loans are generally made for a term of 18 months to two years and 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 $403.9 million of home equity loans as of December 31, 2012 consist of 1-4 family junior lien mortgages and first and junior lien lines of credit secured by residential real estate. The home equity loan portfolio consists of 64 percent variable interest rate and 36 percent fixed interest rate loans. Approximately 50 percent of the home equity loans are in a first lien status with the remaining 50 percent in junior lien status. Approximately 20 percent of the home equity loans are closed-end amortizing loans and 80 percent are open-end, revolving home equity lines of credit.

Home equity lines of credit are generally originated with maturity terms from 10 to 15 years. At origination, borrowers can choose 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 origination which then converts to a variable interest rate for the remaining term of the home equity lines of credit. The draw period usually exists from origination to the maturity of the home equity lines of credit. During the draw period, a borrower with a variable interest rate term has the option of converting to a fixed interest rate for all or a portion of the remaining term 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 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. The bank divisions' Officer Loan Committees have loan approval authority between $250,000 and $1,000,000. The bank divisions' Advisory Boards' have loan approval authority up to $2,000,000. Loans 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 Credit Administrator. Loans 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 $52.2 million and $75.7 million in loans with interest reserves with remaining reserves of $945 thousand and $568 thousand as of December 31, 2012 and 2011, respectively. During 2012, the Company extended, renewed, or restructured 20 loans with interest reserves, such loans having an aggregate outstanding principal balance of $16.2 million as of December 31, 2012. However, such actions were based on prudent underwriting standards and not to keep the loans current. As of December 31, 2012, the Company had 4 construction loans totaling $1.6 million with interest reserves that are currently non-performing or which are potential problem loans.

Table of Contents

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, FHA and VA 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 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 SBA 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 securities that were collateralized with subprime mortgages. The Company has not purchased loans outside the Company or originated loans outside the Company's geographic market area.

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 requirements of the Interagency Appraisal and Evaluation Guidelines (and the Interagency Guidelines for Real Estate Lending Policies in Appendix A to Part 365 of Title 12, CFR) (collectively, the "Guidelines") and the Uniform Standards of Professional Appraisal Practice ("USPAP") as established and amended by the Appraisal Standards Board. The Company's Loan Policy establishes criteria for obtaining appraisals or evaluations (new or updated), including transactions that are otherwise exempt from the appraisal requirements set forth within the Guidelines.

Each of the Company's 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 three weeks for residential property 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, the Guidelines and USPAP standards. 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.

Table of Contents

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, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008
Other real estate owned	$45,115	78,354	73,485	57,320	11,539
Accruing loans 90 days or more past due					
Residential real estate	451	59	506	1,965	4,103
Commercial	791	1,168	3,051	1,311	2,897
Consumer and other	237	186	974	2,261	1,613
Total	1,479	1,413	4,531	5,537	8,613
Non-accrual loans					
Residential real estate	14,237	11,881	23,095	20,093	3,575
Commercial	68,887	109,641	161,136	168,328	58,454
Consumer and other	13,809	12,167	8,274	9,860	2,272
Total	96,933	133,689	192,505	198,281	64,301
Total non-performing assets [1]	$143,527	213,456	270,521	261,138	84,453
Non-performing assets as a percentage of subsidiary assets	1.87 %	2.92 %	3.91 %	4.13 %	1.46 %
Allowance for loan and lease losses as a percentage of non-performing loans	133 %	102 %	70 %	70 %	105 %
Accruing loans 30-89 days past due	$27,097	49,086	45,497	87,491	54,787
Troubled debt restructurings not included in non-performing assets	$100,151	98,859	26,475	13,829	n/m
Interest income [2]	$5,161	7,441	10,987	11,730	4,434

1 As of December 31, 2012, non-performing assets have not been reduced by U.S. government guarantees of $1.6 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.

n/m - not measurable

As a result of the Company's continued focus on actively managing the disposition of its non-performing assets, the Company had a current year decrease of $69.9 million, or 33 percent, in non-performing assets to $143.5 million at December 31, 2012. The Company's early stage delinquencies (accruing loans 30-89 days past due) has seen a significant decrease during the second half of 2012 and decreased $22.0 million, or 45 percent, to $27.1 million at December 31, 2012 compared to early stage delinquencies of $49.1 million as of December 31, 2011.

The largest category of non-performing assets was the land, lot and other construction loans category, a regulatory classification, which was $66.5 million, or 46 percent, of the non-performing assets at December 31, 2012. Included in this category was $31.5 million of land development loans and $19.1 million in unimproved land loans at December 31, 2012. Although land, lot and other construction loans have put pressure on the Company's credit quality, the Company has continued to reduce this category in the current and prior year.

Table of Contents

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

For non-performing construction loans involving residential structures, the percentage of completion exceeds 95 percent at December 31, 2012. For non-performing construction loans involving commercial structures, the percentage of completion ranges from projects not started to projects completed at December 31, 2012. During the construction loan term, all construction loan collateral properties are inspected at least monthly, or more frequently as needed, until completion. Draws on construction loans are predicated upon the results of the inspection and advanced based upon a percentage of completion basis versus original budget percentages. When construction loans become non-performing and the associated project is not complete, the Company on a case-by-case basis makes the decision to advance additional funds or to initiate collection/foreclosure proceedings. Such decision includes obtaining “as-is” and “at completion” appraisals for consideration of potential increases or decreases in the collateral’s value. The Company also considers the increased costs of monitoring progress to completion, and the related collection/holding period costs should collateral ownership be transferred to the Company. With very limited exception, the Company does not disburse additional funds on non-performing loans. Instead, the Company has proceeded to collection and foreclosure actions in order to reduce the Company’s exposure to loss on such loans.

Construction loans, a regulatory classification. accounted for 40 percent of the Company's non-accrual loans as of December 31, 2012. Land, lot and other construction loans, a regulatory classification, were 95 percent of the non-accrual construction loans. Of the Company’s $39.2 million of non-accrual construction loans at December 31, 2012, 96 percent of such loans had collateral properties securing the loans in Western Montana and Idaho. With locations and operations in the contiguous northern Rocky Mountain states of Idaho and Montana, the geography and economies of each of these geographic areas are predominantly tied to real estate development given the sprawling abundance of timbered valleys and mountainous terrain with significant lakes, streams and watershed areas. Consistent with the general economic downturn, the market for upscale primary, secondary and other housing as well as the associated construction and building industries have stalled after years of significant growth. As the housing market (rental and owner-occupied) and related industries continue to recover from the downturn, the Company continues to reduce its exposure to loss in the land, lot and other construction loan portfolio.

For additional information on accounting policies relating to non-performing assets and impaired loans, see Note 1 to the Consolidated Financial Statements in "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). When the ultimate collectability of the total principal of an impaired loan is in doubt and designated as non-accrual, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal on an impaired loan is not in doubt, contractual interest is generally credited to interest income when received under the cash basis method.

Impaired loans were $202 million and $259 million as of December 31, 2012 and 2011, respectively. The ALLL includes valuation allowances of $15.5 million and $18.8 million specific to impaired loans as of December 31, 2012 and 2011, respectively. Of the total impaired loans at December 31, 2012, there were 32 significant commercial real estate and other commercial loans that accounted for $84.0 million, or 42 percent, of the impaired loans. The 32 loans were collateralized by 135 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, 2012, there were 119 loans aggregating $100 million, or 50 percent, whereby the borrowers had more than one impaired loan. The amount of impaired loans that have had partial charge-offs during the year for which the Company continues to have concern about the collectability of the remaining loan balance was $12.9 million. Of these loans, there were charge-offs of $3.5 million during 2012.

Table of Contents

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 (new or updated) of the underlying property value. The Company reviews appraisals or evaluations (new or updated), giving consideration to the highest and best use of the collateral, with values reduced by discounts to consider lack of marketability and estimated cost to sell. Appraisals or evaluations (new or updated) are reviewed at least quarterly and more frequently based on current market conditions, including deterioration in a borrower's financial condition and when property values may be subject to significant volatility. After review and acceptance of the collateral appraisal or evaluation (new or updated), adjustments to an impaired loan's value may occur.

In deciding whether to obtain an appraisal or evaluation (new or updated), the Company considers the impact of the following factors and environmental events:

- passage of time;
- improvements to, or lack of maintenance of, the collateral property;
- stressed and volatile economic conditions, including market values;
- changes in the performance, risk profile, size and complexity of the credit exposure;
- limited or specific use collateral property;
- high loan-to-value credit exposures;
- changes in the adequacy of the collateral protections, including loan covenants and financially responsible guarantors;
- competing properties in the market area;
- changes in zoning and environmental contamination;
- the nature of subsequent transactions (e.g., modification, restructuring, refinancing); and
- the availability of alternative financing sources.

The Company also takes into account 1) the Company's experience with whether the appraised values of impaired collateral-dependent loans are actually realized, and 2) the timing of cash flows expected to be received from the underlying collateral to the extent such timing is significantly different than anticipated in the most recent appraisal.

The Company generally obtains appraisals or evaluations (new or updated) annually for collateral underlying impaired loans. For collateral-dependent loans for which the appraisal of the underlying collateral is more than twelve months old, the Company updates collateral valuations through procedures that include obtaining current inspections of the collateral property, broker price opinions, comprehensive market analyses and current data for conditions and assumptions (e.g., discounts, comparable sales and trends) underlying the appraisals' valuation techniques. The Company's impairment and valuation procedures take into account new and updated appraisals on similar properties in the same area in order to capture current market valuation changes, unfavorable and favorable.

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 $151 million and $165 million as of December 31, 2012 and 2011, respectively. The Company's TDR loans are considered impaired loans of which $50.9 million and $65.6 million as of December 31, 2012 and 2011, respectively, are designated as non-accrual.

Each restructured debt is separately negotiated with the borrower and includes terms and conditions that reflect the borrower's prospective ability to service the debt as modified. The Company discourages the use of the multiple loan strategy when restructuring loans regardless of whether or not the notes are TDR loans. The Company does not have any commercial TDR loans as of December 31, 2012 that have repayment dates extended at or near the original maturity date for which the Company has not classified as impaired. At December 31, 2012, the Company has TDR loans of $29.0 million that are in non-accrual status or that have had partial charge-offs during the year, the borrowers of which continue to have $37.8 million in other loans that are on accrual status.

Table of Contents

Other Real Estate Owned

The loan book value prior to the acquisition and transfer of the loan into OREO during 2012 was $39.8 million of which $16.1 million was residential real estate, $18.2 million was commercial, and $5.5 million was consumer loans. The fair value of the loan collateral acquired in foreclosure during 2012 was $27.5 million of which $11.6 million was residential real estate, $12.2 million was commercial, and $3.7 million was consumer loans. The following table sets forth the changes in OREO for the periods indicated:

(Dollars in thousands)	Years ended December 31, 2012	December 31, 2011	December 31, 2010
Balance at beginning of period	$78,354	73,485	57,320
Additions	27,536	79,295	72,572
Capital improvements	—	669	273
Write-downs	(13,258)	(16,246)	(10,429)
Sales	(47,517)	(58,849)	(46,251)
Balance at end of period	$45,115	78,354	73,485

The Company believes that the write-downs in 2012 and 2011 are not considered a trend in that several of such properties have characteristics unique to the property, including special or limited use, and locations of such properties. The Company also determined that the write-downs were not indicative of a trend which would likely affect the future operating results in light of the remaining holdings of real property and the Company’s experience in the geographic markets where the properties are located. However, there can be no assurance that future significant write-downs will not occur.

Allowance for Loan and Lease Losses

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

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

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

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

Table of Contents

The Bank divisions' credit administration reviews their respective loan portfolios to determine which loans are impaired and estimates the specific valuation allowance. The impaired loans and related specific valuation allowance are then provided to the Company's credit administration for further review and approval. The Company's credit administration also determines the estimated general valuation and reviews and approves the overall ALLL for the Company. The credit administration of the Company exercises significant judgment when evaluating the effect of applicable qualitative or environmental factors on the Company's historical loss experience for loans not identified as impaired. Quantification of the impact upon the Company's ALLL is inherently subjective as data for any factor may not be directly applicable, consistently relevant, or reasonably available for management to determine the precise impact of a factor on the collectability of the Company's unimpaired loan portfolio as of each evaluation date. The Company's credit administration documents its conclusions and rationale for changes that occur in each applicable factor's weight (i.e., measurement) and ensures that such changes are directionally consistent based on the underlying current trends and conditions for the factor. To have directional consistency, the provision for loan losses and credit quality should generally move in the same direction.

The Company's model of eleven bank divisions with separate management teams provides substantial local oversight to the lending and credit management function. The Company's business model affords multiple reviews of larger loans before credit is extended, a significant benefit in mitigating and managing the Company's credit risk. The geographic dispersion of the market areas in which the Company operates further mitigates the risk of credit loss. While this process is intended to limit credit exposure, there can be no assurance that further problem credits will not arise and additional loan losses incurred, particularly in periods of rapid economic downturns.

The primary responsibility for credit risk assessment and identification of problem loans rests with the loan officer of the account. This continuous process of identifying impaired loans is necessary to support management's evaluation of the ALLL adequacy. An independent loan review function verifying credit risk ratings evaluates the loan officer and management's evaluation of the loan portfolio credit quality. The loan review function also assesses the evaluation process and provides an independent analysis of the adequacy of the ALLL.

No assurance can be given that the Company will not, in any particular period, sustain losses that are significant relative to the ALLL amount, or that subsequent evaluations of the loan portfolio applying management's judgment about then current factors, including economic and regulatory developments, will not require significant changes in the ALLL. Under such circumstances, this could result in enhanced provisions for loan losses. See additional risk factors in "Item 1A. Risk Factors."

The following table summarizes the allocation of the ALLL as of the dates indicated:

	December 31, 2012		December 31, 2011		December 31, 2010		December 31, 2009		December 31, 2008	
(Dollars in thousands)	ALLL	Percent of Loans in Category	ALLL	Percent of Loans in Category	ALLL	Percent of Loans in Category	ALLL	Percent of Loans in Category	ALLL	Percent of Loans in Category
Residential real estate	$ 15,482	15 %	17,227	15 %	20,957	17 %	13,496	18 %	7,233	19 %
Commercial real estate	74,398	49 %	76,920	48 %	76,147	48 %	66,791	47 %	35,305	47 %
Other commercial	21,567	18 %	20,833	18 %	19,932	17 %	39,558	18 %	21,590	16 %
Home equity	10,659	12 %	13,616	13 %	13,334	13 %	13,419	12 %	6,975	13 %
Other consumer	8,748	6 %	8,920	6 %	6,737	5 %	9,663	5 %	5,636	5 %

Totals	$	130,854	100	%	137,516	100	%	137,107	100	%	142,927	100	%	76,739	100	%

Table of Contents

The following table summarizes the ALLL experience for the periods indicated:

(Dollars in thousands)	Years ended December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008
Balance at beginning of period	$ 137,516	137,107	142,927	76,739	54,413
Provision for loan losses	21,525	64,500	84,693	124,618	28,480
Charge-offs					
Residential real estate	(5,267)	(5,671)	(16,575)	(18,854)	(3,233)
Commercial loans	(21,578)	(52,428)	(69,595)	(35,077)	(4,957)
Consumer and other loans	(7,827)	(11,267)	(7,780)	(6,965)	(1,649)
Total charge-offs	(34,672)	(69,366)	(93,950)	(60,896)	(9,839)
Recoveries					
Residential real estate	643	486	749	423	23
Commercial loans	4,088	3,830	2,203	1,636	716
Consumer and other loans	1,754	959	485	407	321
Total recoveries	6,485	5,275	3,437	2,466	1,060
Charge-offs, net of recoveries	(28,187)	(64,091)	(90,513)	(58,430)	(8,779)
Acquisitions [1]	—	—	—	—	2,625
Balance at end of period	$ 130,854	137,516	137,107	142,927	76,739
Allowance for loan and lease losses as a percentage of total loans	3.85 %	3.97 %	3.66 %	3.52 %	1.88 %
Net charge-offs as a percentage of average loans	0.80 %	1.77 %	2.26 %	1.41 %	0.23 %

[1] Acquisition of San Juans in 2008.

The Company’s allowance of $131 million is considered adequate to absorb losses from any class of its loan portfolio. For the periods ended December 31, 2012 and 2011, the Company believes the allowance is commensurate with the risk in the Company’s loan portfolio and is directionally consistent with the change in the quality of the Company’s loan portfolio.

At December 31, 2012, the allowance for loan and lease losses was $131 million, a decrease of $6.7 million from the prior year. The allowance was 3.85 percent of total loans outstanding at December 31, 2012, compared to 3.97 percent at December 31, 2011. The decrease in the allowance as a percentage of loans was determined to be adequate based on the Company's assessment of the allowance and was reflective of the improvement in credit quality measurements. The allowance was 133 percent of non-performing loans at December 31, 2012, an increase from 102 percent at December 31, 2011.

When applied to the Company’s historical loss experience, the qualitative or environmental factors result in the provision for loan losses being recorded in the period in which the loss has probably occurred. When the loss is confirmed at a later date, a charge-off is recorded. During 2012, loan charge-offs, net of recoveries, exceeded the provision for loan losses by $6.7 million. During the same period in 2011, the provision for loan losses exceeded loan charge-offs, net of recoveries, by $409 thousand.

The Company provides commercial services to individuals, small to medium size businesses, community organizations and public entities from 108 locations, including 99 branches, across Montana, Idaho, Wyoming, Colorado, Utah, and Washington. The Rocky Mountain states in which the Company operates has diverse economies and markets that are tied to commodities (crops, livestock, minerals, oil and natural gas), tourism, real estate and land development and an assortment of industries, both manufacturing and service-related. Thus, the changes in the global, national, and local economies are not uniform across the Company’s geographic locations.

Although there continues to be heightened uncertainty in the economic environment, there was notable improvements during 2012 compared to 2011 and the past several years. There was steady growth in the housing permits, housing starts, and completions for new privately owned units during 2012 in Montana, Idaho, Colorado and Utah in relation to the US national statistics. There was improvement in single family residential real estate construction and sales for all of the Company's market areas. Single family residential collateral values in Idaho, Wyoming and Montana stabilized (with some improvement in isolated markets in which the Company operates) compared to the prior year and prior 5 year historical trends. There was a steady decline in the number of foreclosures initiated in 2012 for Montana, Idaho, and Wyoming. The unemployment rates for the states in which the Company conducts operations were generally lower compared to the national unemployment rate. National unemployment rates increased steadily from 5.0 in the first part of 2008 to a range of 7.8 to 10.0 during 2009 through 2011 and has recently declined to 7.8 in December of 2012. Agricultural price declines in livestock and grain in 2009 have recovered significantly and remain strong. While prices for oil have held strong, prices for natural gas continue to remain weak (due to excess supply) especially when compared to the exceptionally high price levels of natural gas during 2008. The tourism industry and related lodging continues to be a source of strength for the locations where the Company's market areas have national parks and similar recreational areas in the market areas served.

In evaluating the need for a specific or general valuation allowance for impaired and unimpaired loans, respectively, within the Company's construction loan portfolio, (i.e., regulatory classification), including residential construction and land, lot and other construction loans, the credit risk related to such loans was considered in the ongoing monitoring of such loans, including assessments based on current information, including appraisals or evaluations (new or updated) of the underlying collateral, expected cash flows and the timing thereof, as well as the estimated cost to sell when such costs are expected to reduce the cash flows available to repay or otherwise satisfy the construction loan. Construction loans are 12 percent of the Company's total loan portfolio and account for 40 percent of the Company's non-accrual loans at December 31, 2012. Collateral securing construction loans includes residential buildings (e.g., single/multi-family and condominiums), commercial buildings, and associated land (multi-acre parcels and individual lots, with and without shorelines).

The Company's allowance consisted of the following components as of the dates indicated:

(Dollars in thousands)	December 31, 2012	December 31, 2011
Specific valuation allowance	$ 15,534	18,828
General valuation allowance	115,320	118,688
Total ALLL	$ 130,854	137,516

During 2012, the ALLL decreased by $6.7 million, the net result of a $3.3 million decrease in the specific valuation allowance and a $3.4 million decrease in the general valuation allowance. The decrease in the specific valuation allowance since the prior year end was primarily due to the decrease in loans with a specific valuation allowance of $15.0 million. The decrease in the general valuation allowance was the result of a $11.8 million decrease in loans collectively evaluated for impairment and an improvement in the historical loss experience adjusted for qualitative or environmental factors. Further supporting the decrease in the ALLL were the following trends:

- Non-accrual construction loans, (i.e., residential construction and land, lot and other construction, each a regulatory classification) were $39.2 million, or 40 percent, of the $96.9 million of non-accrual loans at year end 2012, a decrease of $28.7 million from the prior year end. Non-accrual construction loans at year end 2011 accounted for 51 percent of the $134 million of non-accrual loans.
- Non-performing loans as a percent of total loans decreased to 2.90 percent at December 31, 2012 as compared to 3.90 percent at December 31, 2011.
- Charge-offs, net of recoveries, in 2012 were $28.2 million, a $35.9 million decrease from 2011.

- Net charge-offs of construction loans were $12.4 million, or 44 percent, of the $28.2 million of net charge-offs in 2012 compared to net charge-offs of construction loans of $35.6 million, or 56 percent, of the $64.1 million of net charge-offs in 2011.
- Early stage delinquencies (accruing loans 30-89 days past due) decreased to $27.1 million at year end 2012 from $49.1 million at the prior year end.
- Impaired loans as a percent of total loans decreased to 5.94 percent at year end 2012 as compared to 7.46 percent at year end 2011.

For additional information regarding the ALLL, its relation to the provision for loan losses and risk related to asset quality, see Note 4 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data."

Table of Contents

Loans by Regulatory Classification

Supplemental information regarding identification of the Company's loan portfolio and credit quality based on regulatory classification is provided in the following tables. The regulatory classification of loans is based primarily on the type of collateral for the loans. There may be differences when compared to loan tables and loan amounts appearing elsewhere which reflect the Company's internal loan segments and classes which are based on the purpose of the loan.

The following table summarizes the Company’s loan portfolio by regulatory classification:

(Dollars in thousands)	December 31, 2012	December 31, 2011	$ Change	% Change
Custom and owner occupied construction	$40,327	35,422	4,905	14 %
Pre-sold and spec construction	34,970	58,811	(23,841)	(41)%
Total residential construction	75,297	94,233	(18,936)	(20)%
Land development	80,132	103,881	(23,749)	(23)%
Consumer land or lots	104,229	125,396	(21,167)	(17)%
Unimproved land	53,459	66,074	(12,615)	(19)%
Developed lots for operative builders	16,675	25,180		