GLACIER BANCORP INC
Form 10-Q
November 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2012

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

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

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

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

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

Large Accelerated Filer	ý	Accelerated Filer	¨
Non-Accelerated Filer	¨	Smaller reporting Company	¨

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
The number of shares of Registrant's common stock outstanding on October 23, 2012 was 71,937,222. No preferred shares are issued or outstanding.

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Operations

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Dollars in thousands, except per share data)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings Substantially Restricted	Accumulated Other Compre-hensive Income	Total
Balance at December 31, 2010	71,915,073	$719	643,894	193,063	528	838,204
Comprehensive income	—	—	—	3,123	39,122	42,245
Cash dividends declared ($0.39 per share)	—	—	—	(28,047)	—	(28,047)
Stock-based compensation and related taxes	—	—	(1,014)	—	—	(1,014)
Balance at September 30, 2011	71,915,073	$719	642,880	168,139	39,650	851,388
Balance at December 31, 2011	71,915,073	$719	642,882	173,139	33,487	850,227
Comprehensive income	—	—	—	54,758	14,369	69,127
Cash dividends declared ($0.39 per share)	—	—	—	(28,052)	—	(28,052)
Stock issuances under stock incentive plans	22,149	—	323	—	—	323
Stock-based compensation and related taxes	—	—	(1,468)	—	—	(1,468)
Balance at September 30, 2012	71,937,222	$719	641,737	199,845	47,856	890,157

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. Nature of Operations and Summary of Significant Accounting Policies

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

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

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

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

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

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

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The Company owns the following trust subsidiaries, each of which issued trust preferred securities as Tier 1 capital instruments: Glacier Capital Trust II, Glacier Capital Trust III, Glacier Capital Trust IV, Citizens (ID) Statutory Trust I, Bank of the San Juans Bancorporation Trust I, First Company Statutory Trust 2001 and First Company Statutory Trust 2003. The trust subsidiaries are not consolidated into the Company's financial statements.

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

Variable Interest Entities

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

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

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

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

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Loans Receivable

Loans that are intended to be held-to-maturity are reported at the unpaid principal balance less net charge-offs and adjusted for deferred fees and costs on originated loans and unamortized premiums or discounts on acquired loans. Interest income is reported using the interest method and includes discount accretion and premium amortization on acquired loans and net loan fees on originated loans which are amortized over the expected life of the loans using a method that approximates the level-yield interest method. The Company's loan segments include residential real estate, commercial, and consumer loans. The Company's loan classes, a further disaggregation of segments, include residential real estate loans (residential real estate segment), commercial real estate and other commercial loans (commercial segment), and home equity and other consumer loans (consumer segment).

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

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

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

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The Company considers impaired loans to be the primary credit quality indicator for monitoring the credit quality of the loan portfolio. Loans are designated impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement and therefore, the Company has serious doubts as to the ability of such borrowers to fulfill the contractual obligation. Impaired loans include non-performing loans (i.e., non-accrual loans and accruing loans 90 days or more past due) and accruing loans under ninety days past due where it is probable payments will not be received according to the loan agreement (e.g., TDR). The Company measures impairment on a loan-by-loan basis in the same manner for each class within the loan portfolio. An insignificant delay or shortfall in the amounts of payments would not cause a loan or lease to be considered impaired. The Company determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the facts and circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest due.

A restructured loan is considered a TDR if the creditor, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider. A TDR loan is considered an impaired loan and a specific valuation allowance is established when the fair value of the collateral-dependent loan or present value of the loan's expected future cash flows (discounted at the loan's effective interest rate based on the original contractual rate) is lower than the carrying value of the impaired loan. The Company made the following types of loan modifications, some of which were considered a TDR:

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

For additional information relating to loans, see Note 3.

Allowance for Loan and Lease Losses

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

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

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

The changes in trends and conditions of certain items include the following:

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

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

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Impact of Recent Authoritative Accounting Guidance

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

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

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

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

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2. Investment Securities, Available-for-Sale

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

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

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

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

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

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

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

Investments with an unrealized loss position are summarized as follows:

	September 30, 2012					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and local governments	$98,691	(823)	5,418	(85)	104,109	(908)
Corporate bonds	13,024	(35)	—	—	13,024	(35)
Collateralized debt obligations	—	—	2,762	(85)	2,762	(85)
Residential mortgage-backed securities	844,499	(4,396)	118,764	(1,592)	963,263	(5,988)
Total temporarily impaired securities	$956,214	(5,254)	126,944	(1,762)	1,083,158	(7,016)

	December 31, 2011					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and local governments	$26,434	(90)	9,948	(488)	36,382	(578)
Corporate bonds	31,782	(1,264)	—	—	31,782	(1,264)
Collateralized debt obligations	—	—	5,366	(282)	5,366	(282)
Residential mortgage-backed securities	943,372	(6,850)	8,244	(333)	951,616	(7,183)
Total temporarily impaired securities	$1,001,588	(8,204)	23,558	(1,103)	1,025,146	(9,307)

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

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3. Loans Receivable, Net

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

	Three Months ended September 30, 2012					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Balance at beginning of period	$ 137,459	18,139	79,098	20,570	10,904	8,748
Provision for loan losses	2,700	209	(1,210)	2,859	(555)	1,397
Charge-offs	(5,052)	(1,172)	(586)	(1,441)	(1,044)	(809)
Recoveries	1,553	73	453	241	679	107
Balance at end of period	$ 136,660	17,249	77,755	22,229	9,984	9,443

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

	Nine Months ended September 30, 2012					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Balance at beginning of period	$ 137,516	17,227	76,920	20,833	13,616	8,920
Provision for loan losses	19,250	2,294	11,800	4,163	(1,025)	2,018
Charge-offs	(24,789)	(2,492)	(13,120)	(3,797)	(3,402)	(1,978)
Recoveries	4,683	220	2,155	1,030	795	483
Balance at end of period	$ 136,660	17,249	77,755	22,229	9,984	9,443

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

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

(Dollars in thousands)	September 30, 2012 Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Allowance for loan and lease losses						
Individually evaluated for impairment	$ 18,562	3,252	8,410	4,436	257	2,207
Collectively evaluated for impairment	118,098	13,997	69,345	17,793	9,727	7,236
Total allowance for loan and lease losses	$ 136,660	17,249	77,755	22,229	9,984	9,443
Loans receivable						
Individually evaluated for impairment	$ 226,440	29,945	141,717	35,672	12,054	7,052
Collectively evaluated for impairment	3,181,654	498,232	1,510,335	585,235	394,850	193,002
Total loans receivable	$ 3,408,094	528,177	1,652,052	620,907	406,904	200,054

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

Substantially all of the Company’s loan receivables are with customers in the Company’s geographic market areas. Although the Company has a diversified loan portfolio, a substantial portion of its customers’ ability to honor their obligations is dependent upon the economic performance in the Company’s market areas. Net deferred fees, costs, premiums, and discounts of $1,792,000 and $3,123,000 were included in the loans receivable balance at September 30, 2012 and December 31, 2011, respectively.

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

	At or for the Three or Nine Months ended September 30, 2012					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$ 74,256	11,663	34,943	22,354	804	4,492
Unpaid principal balance	84,807	11,787	44,929	22,743	852	4,496
Specific valuation allowance	18,562	3,252	8,410	4,436	257	2,207
Average balance - three months	78,067	15,010	35,513	21,981	1,326	4,237
Average balance - nine months	80,131	14,163	37,807	23,030	1,398	3,733
Loans without a specific valuation allowance						
Recorded balance	$ 152,184	18,282	106,774	13,318	11,250	2,560
Unpaid principal balance	164,411	19,041	116,157	14,863	11,753	2,597
Average balance - three months	154,105	16,771	107,599	15,207	11,452	3,076
Average balance - nine months	168,387	15,411	115,520	21,569	12,562	3,325
Totals						
Recorded balance	$ 226,440	29,945	141,717	35,672	12,054	7,052
Unpaid principal balance	249,218	30,828	161,086	37,606	12,605	7,093
Specific valuation allowance	18,562	3,252	8,410	4,436	257	2,207
Average balance - three months	232,172	31,781	143,112	37,188	12,778	7,313
Average balance - nine months	248,518	29,574	153,327	44,599	13,960	7,058

	At or for the Year ended December 31, 2011					
(Dollars in thousands)	Total	Residential Real Estate	Commercial Real Estate	Other Commercial	Home Equity	Other Consumer
Loans with a specific valuation allowance						
Recorded balance	$ 77,717	11,111	39,971	22,087	1,219	3,329
Unpaid principal balance	85,514	11,177	47,569	22,196	1,238	3,334
Specific valuation allowance	18,828	2,659	9,756	4,233	584	1,596
Average balance	66,871	10,330	38,805			