

GLACIER BANCORP INC  
Form 10-Q  
November 01, 2018

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

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

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

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

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|                                                                   |                                      |
|-------------------------------------------------------------------|--------------------------------------|
| MONTANA                                                           | 81-0519541                           |
| (State or other jurisdiction of<br>incorporation or organization) | (IRS Employer<br>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)

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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. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of Registrant's common stock outstanding on October 16, 2018 was 84,521,692. No preferred shares are issued or outstanding.

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## ABBREVIATIONS/ACRONYMS

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

## GLACIER BANCORP, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| (Dollars in thousands, except per share data)                                                         | September 30,<br>2018 | December 31,<br>2017 |
|-------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>Assets</b>                                                                                         |                       |                      |
| Cash on hand and in banks                                                                             | \$ 171,394            | 139,948              |
| Interest bearing cash deposits                                                                        | 135,710               | 60,056               |
| Cash and cash equivalents                                                                             | 307,104               | 200,004              |
| Debt securities, available-for-sale                                                                   | 2,103,619             | 1,778,243            |
| Debt securities, held-to-maturity                                                                     | 590,915               | 648,313              |
| Total debt securities                                                                                 | 2,694,534             | 2,426,556            |
| Loans held for sale, at fair value                                                                    | 50,649                | 38,833               |
| Loans receivable                                                                                      | 8,123,245             | 6,577,824            |
| Allowance for loan and lease losses                                                                   | (132,535)             | (129,568)            |
| Loans receivable, net                                                                                 | 7,990,710             | 6,448,256            |
| Premises and equipment, net                                                                           | 239,006               | 177,348              |
| Other real estate owned                                                                               | 12,399                | 14,269               |
| Accrued interest receivable                                                                           | 62,248                | 44,462               |
| Deferred tax asset                                                                                    | 37,264                | 38,344               |
| Core deposit intangible, net                                                                          | 50,973                | 14,184               |
| Goodwill                                                                                              | 289,535               | 177,811              |
| Non-marketable equity securities                                                                      | 16,502                | 29,884               |
| Bank-owned life insurance                                                                             | 81,850                | 59,351               |
| Other assets                                                                                          | 76,328                | 37,047               |
| <b>Total assets</b>                                                                                   | <b>\$ 11,909,102</b>  | <b>9,706,349</b>     |
| <b>Liabilities</b>                                                                                    |                       |                      |
| Non-interest bearing deposits                                                                         | \$ 3,103,112          | 2,311,902            |
| Interest bearing deposits                                                                             | 6,498,070             | 5,267,845            |
| Securities sold under agreements to repurchase                                                        | 408,754               | 362,573              |
| Federal Home Loan Bank advances                                                                       | 155,328               | 353,995              |
| Other borrowed funds                                                                                  | 9,944                 | 8,224                |
| Subordinated debentures                                                                               | 134,055               | 126,135              |
| Accrued interest payable                                                                              | 4,065                 | 3,450                |
| Other liabilities                                                                                     | 103,162               | 73,168               |
| <b>Total liabilities</b>                                                                              | <b>10,416,490</b>     | <b>8,507,292</b>     |
| <b>Stockholders' Equity</b>                                                                           |                       |                      |
| 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                               | 845                   | 780                  |
| Paid-in capital                                                                                       | 1,050,463             | 797,997              |
| Retained earnings - substantially restricted                                                          | 471,021               | 402,259              |
| Accumulated other comprehensive loss                                                                  | (29,717)              | (1,979)              |
| <b>Total stockholders' equity</b>                                                                     | <b>1,492,612</b>      | <b>1,199,057</b>     |
| <b>Total liabilities and stockholders' equity</b>                                                     | <b>\$ 11,909,102</b>  | <b>9,706,349</b>     |
| Number of common stock shares issued and outstanding                                                  | 84,521,093            | 78,006,956           |

See accompanying notes to unaudited condensed consolidated financial statements.

## GLACIER BANCORP, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|                                                     | Three Months ended |                    | Nine Months ended  |                    |
|-----------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
| (Dollars in thousands, except per share data)       | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Interest Income                                     |                    |                    |                    |                    |
| Investment securities                               | \$21,971           | 19,987             | 64,483             | 63,305             |
| Residential real estate loans                       | 10,356             | 8,326              | 29,290             | 24,594             |
| Commercial loans                                    | 80,587             | 59,875             | 221,926            | 166,027            |
| Consumer and other loans                            | 9,991              | 8,276              | 27,987             | 24,198             |
| Total interest income                               | 122,905            | 96,464             | 343,686            | 278,124            |
| Interest Expense                                    |                    |                    |                    |                    |
| Deposits                                            | 4,837              | 4,564              | 13,370             | 13,505             |
| Securities sold under agreements to repurchase      | 570                | 537                | 1,541              | 1,362              |
| Federal Home Loan Bank advances                     | 2,132              | 1,398              | 6,734              | 4,642              |
| Other borrowed funds                                | 63                 | 21                 | 105                | 55                 |
| Subordinated debentures                             | 1,558              | 1,132              | 4,345              | 3,228              |
| Total interest expense                              | 9,160              | 7,652              | 26,095             | 22,792             |
| Net Interest Income                                 | 113,745            | 88,812             | 317,591            | 255,332            |
| Provision for loan losses                           | 3,194              | 3,327              | 8,707              | 7,938              |
| Net interest income after provision for loan losses | 110,551            | 85,485             | 308,884            | 247,394            |
| Non-Interest Income                                 |                    |                    |                    |                    |
| Service charges and other fees                      | 19,504             | 17,307             | 55,179             | 50,435             |
| Miscellaneous loan fees and charges                 | 1,807              | 1,211              | 5,527              | 3,283              |
| Gain on sale of loans                               | 7,256              | 9,141              | 21,495             | 23,031             |
| (Loss) gain on sale of debt securities              | (367)              | 77                 | (756)              | (545)              |
| Other income                                        | 4,216              | 3,449              | 8,885              | 8,326              |
| Total non-interest income                           | 32,416             | 31,185             | 90,330             | 84,530             |
| Non-Interest Expense                                |                    |                    |                    |                    |
| Compensation and employee benefits                  | 49,927             | 41,297             | 144,671            | 120,041            |
| Occupancy and equipment                             | 7,914              | 6,500              | 22,850             | 19,706             |
| Advertising and promotions                          | 2,432              | 2,239              | 7,132              | 6,381              |
| Data processing                                     | 3,752              | 3,647              | 11,960             | 10,180             |
| Other real estate owned                             | 2,674              | 817                | 2,957              | 1,532              |
| Regulatory assessments and insurance                | 1,277              | 1,214              | 3,812              | 3,362              |
| Core deposit intangibles amortization               | 1,735              | 640                | 4,539              | 1,880              |
| Other expenses                                      | 13,118             | 12,198             | 40,330             | 34,123             |
| Total non-interest expense                          | 82,829             | 68,552             | 238,251            | 197,205            |
| Income Before Income Taxes                          | 60,138             | 48,118             | 160,963            | 134,719            |
| Federal and state income tax expense                | 10,802             | 11,639             | 28,684             | 33,298             |
| Net Income                                          | \$49,336           | 36,479             | 132,279            | 101,421            |
| Basic earnings per share                            | \$0.58             | 0.47               | 1.59               | 1.31               |
| Diluted earnings per share                          | \$0.58             | 0.47               | 1.59               | 1.31               |
| Dividends declared per share                        | \$0.26             | 0.51               | 0.75               | 0.93               |
| Average outstanding shares - basic                  | 84,518,407         | 78,004,450         | 83,294,111         | 77,379,514         |
| Average outstanding shares - diluted                | 84,593,127         | 78,065,942         | 83,362,323         | 77,442,944         |

See accompanying notes to unaudited condensed consolidated financial statements.

## GLACIER BANCORP, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (Dollars in thousands)                                                | Three Months ended |                    | Nine Months ended  |                    |
|-----------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                       | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Net Income                                                            | \$49,336           | 36,479             | 132,279            | 101,421            |
| Other Comprehensive (Loss) Income, Net of Tax                         |                    |                    |                    |                    |
| Unrealized (losses) gains on available-for-sale debt securities       | (14,190 )          | (2,835 )           | (46,597 )          | 17,172             |
| Reclassification adjustment for (losses) gains included in net income | (151 )             | (77 )              | 195                | 519                |
| Net unrealized (losses) gains on available-for-sale debt securities   | (14,341 )          | (2,912 )           | (46,402 )          | 17,691             |
| Tax effect                                                            | 3,634              | 1,129              | 11,759             | (6,853 )           |
| Net of tax amount                                                     | (10,707 )          | (1,783 )           | (34,643 )          | 10,838             |
| Unrealized gains (losses) on derivatives used for cash flow hedges    | 1,234              | 45                 | 7,302              | (1,799 )           |
| Reclassification adjustment for losses included in net income         | 469                | 1,182              | 1,946              | 3,776              |
| Net unrealized gains on derivatives used for cash flow hedges         | 1,703              | 1,227              | 9,248              | 1,977              |
| Tax effect                                                            | (431 )             | (476 )             | (2,343 )           | (766 )             |
| Net of tax amount                                                     | 1,272              | 751                | 6,905              | 1,211              |
| Total other comprehensive (loss) income, net of tax                   | (9,435 )           | (1,032 )           | (27,738 )          | 12,049             |
| Total Comprehensive Income                                            | \$39,901           | 35,447             | 104,541            | 113,470            |

See accompanying notes to unaudited condensed consolidated financial statements.



## GLACIER BANCORP, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months ended September 30, 2018 and 2017

| (Dollars in thousands, except per share data) | Common Stock |        | Paid-in<br>Capital | Retained<br>Earnings<br>Substantially<br>Restricted | Accumulated<br>Other<br>Compre-<br>hensive<br>(Loss)<br>Income | Total     |
|-----------------------------------------------|--------------|--------|--------------------|-----------------------------------------------------|----------------------------------------------------------------|-----------|
|                                               | Shares       | Amount |                    |                                                     |                                                                |           |
| Balance at December 31, 2016                  | 76,525,402   | \$ 765 | 749,107            | 374,379                                             | (7,382 )                                                       | 1,116,869 |
| Net income                                    | —            | —      | —                  | 101,421                                             | —                                                              | 101,421   |
| Other comprehensive income                    | —            | —      | —                  | —                                                   | 12,049                                                         | 12,049    |
| Cash dividends declared (\$0.93 per share)    | —            | —      | —                  | (72,427 )                                           | —                                                              | (72,427 ) |
| Stock issued in connection with acquisitions  | 1,381,661    | 14     | 46,659             | —                                                   | —                                                              | 46,673    |
| Stock issuances under stock incentive plans   | 99,893       | 1      | (1 )               | —                                                   | —                                                              | —         |
| Stock-based compensation and related taxes    | —            | —      | 1,616              | —                                                   | —                                                              | 1,616     |
| Balance at September 30, 2017                 | 78,006,956   | \$ 780 | 797,381            | 403,373                                             | 4,667                                                          | 1,206,201 |
| Balance at December 31, 2017                  | 78,006,956   | \$ 780 | 797,997            | 402,259                                             | (1,979 )                                                       | 1,199,057 |
| Net income                                    | —            | —      | —                  | 132,279                                             | —                                                              | 132,279   |
| Other comprehensive loss                      | —            | —      | —                  | —                                                   | (27,738 )                                                      | (27,738 ) |
| Cash dividends declared (\$0.75 per share)    | —            | —      | —                  | (63,517 )                                           | —                                                              | (63,517 ) |
| Stock issued in connection with acquisitions  | 6,432,868    | 64     | 250,743            | —                                                   | —                                                              | 250,807   |
| Stock issuances under stock incentive plans   | 81,269       | 1      | (1 )               | —                                                   | —                                                              | —         |
| Stock-based compensation and related taxes    | —            | —      | 1,724              | —                                                   | —                                                              | 1,724     |
| Balance at September 30, 2018                 | 84,521,093   | \$ 845 | 1,050,463          | 471,021                                             | (29,717 )                                                      | 1,492,612 |

See accompanying notes to unaudited condensed consolidated financial statements.

## GLACIER BANCORP, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Dollars in thousands)                                                            | Nine Months ended  |                    |
|-----------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                   | September 30, 2018 | September 30, 2017 |
| Operating Activities                                                              |                    |                    |
| Net income                                                                        | \$ 132,279         | 101,421            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                    |
| Provision for loan losses                                                         | 8,707              | 7,938              |
| Net amortization of debt securities                                               | 10,088             | 16,265             |
| Net accretion of purchase accounting adjustments                                  | (2,962 )           | (4,534 )           |
| Amortization of debt modification costs                                           | 1,237              | —                  |
| Origination of loans held for sale                                                | (647,932 )         | (672,055 )         |
| Proceeds from loans held for sale                                                 | 669,344            | 730,082            |
| Gain on sale of loans                                                             | (21,495 )          | (23,031 )          |
| Loss on sale of debt securities                                                   | 756                | 545                |
| Bank-owned life insurance income, net                                             | (1,782 )           | (1,032 )           |
| Stock-based compensation, net of tax benefits                                     | 2,523              | 1,449              |
| Depreciation of premises and equipment                                            | 11,543             | 10,989             |
| Loss (gain) on sale and write-downs of other real estate owned, net               | 2,347              | (1,808 )           |
| Amortization of core deposit intangibles                                          | 4,539              | 1,880              |
| Amortization of investments in variable interest entities                         | 5,070              | 3,581              |
| Net increase in accrued interest receivable                                       | (10,581 )          | (3,564 )           |
| Net (increase) decrease in other assets                                           | (6,820 )           | 6,147              |
| Net increase (decrease) in accrued interest payable                               | 170                | (431 )             |
| Net increase in other liabilities                                                 | 10,481             | 4,609              |
| Net cash provided by operating activities                                         | 167,512            | 178,451            |
| Investing Activities                                                              |                    |                    |
| Sales of available-for-sale debt securities                                       | 224,612            | 247,748            |
| Maturities, prepayments and calls of available-for-sale debt securities           | 259,102            | 347,450            |
| Purchases of available-for-sale debt securities                                   | (550,096 )         | (28,301 )          |
| Maturities, prepayments and calls of held-to-maturity debt securities             | 55,202             | 18,910             |
| Principal collected on loans                                                      | 1,908,670          | 1,472,757          |
| Loan originations                                                                 | (2,500,098 )       | (2,022,508 )       |
| Net additions to premises and equipment                                           | (13,984 )          | (7,682 )           |
| Proceeds from sale of other real estate owned                                     | 3,370              | 11,812             |
| Proceeds from redemption of non-marketable equity securities                      | 73,199             | 47,805             |
| Purchases of non-marketable equity securities                                     | (62,585 )          | (42,598 )          |
| Proceeds from bank-owned life insurance                                           | 1,331              | 437                |
| Investments in variable interest entities                                         | (30,685 )          | (16,541 )          |
| Net cash received from (paid in) acquisitions                                     | 101,268            | (4,091 )           |
| Net cash (used in) provided by investing activities                               | (530,694 )         | 25,198             |

See accompanying notes to unaudited condensed consolidated financial statements.



## GLACIER BANCORP, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

| (Dollars in thousands)                                                    | Nine Months ended     |                       |
|---------------------------------------------------------------------------|-----------------------|-----------------------|
|                                                                           | September 30,<br>2018 | September 30,<br>2017 |
| Financing Activities                                                      |                       |                       |
| Net increase in deposits                                                  | \$706,469             | 98,013                |
| Net increase (decrease) in securities sold under agreements to repurchase | 17,001                | (20,054 )             |
| Net decrease in short-term Federal Home Loan Bank advances                | (200,000 )            | (62,800 )             |
| Proceeds from long-term Federal Home Loan Bank advances                   | —                     | 150,000               |
| Repayments of long-term Federal Home Loan Bank advances                   | (641 )                | (208,097 )            |
| Net (decrease) increase in other borrowed funds                           | (9,823 )              | 3,803                 |
| Cash dividends paid                                                       | (41,542 )             | (95,332 )             |
| Tax withholding payments for stock-based compensation                     | (1,182 )              | (1,513 )              |
| Net cash provided by (used in) financing activities                       | 470,282               | (135,980 )            |
| Net increase in cash, cash equivalents and restricted cash                | 107,100               | 67,669                |
| Cash, cash equivalents and restricted cash at beginning of period         | 200,004               | 152,541               |
| Cash, cash equivalents and restricted cash at end of period               | \$307,104             | 220,210               |
| Supplemental Disclosure of Cash Flow Information                          |                       |                       |
| Cash paid during the period for interest                                  | \$25,925              | 23,223                |
| Cash paid during the period for income taxes                              | 18,440                | 29,315                |
| Supplemental Disclosure of Non-Cash Investing Activities                  |                       |                       |
| Sale and refinancing of other real estate owned                           | \$406                 | 531                   |
| Transfer of loans to other real estate owned                              | 4,066                 | 3,844                 |
| Dividends declared but not paid                                           | 22,240                | 232                   |
| Acquisitions                                                              |                       |                       |
| Fair value of common stock shares issued                                  | 250,807               | 46,673                |
| Cash consideration for outstanding shares                                 | 16,265                | 17,342                |
| Effective settlement of a pre-existing relationship                       | 10,054                | —                     |
| Fair value of assets acquired                                             | 1,549,158             | 355,230               |
| Liabilities assumed                                                       | 1,383,756             | 321,824               |

See accompanying notes to unaudited condensed consolidated financial statements.

GLACIER BANCORP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

General

Glacier Bancorp, Inc. (“Company”) is a Montana corporation headquartered in Kalispell, Montana. The Company provides a full range of banking services to individuals and businesses in Montana, Idaho, Utah, Washington, Wyoming, Colorado and Arizona through its wholly-owned bank subsidiary, Glacier Bank (“Bank”). The Company offers a wide range of banking products and services, including: 1) retail banking; 2) business banking; 3) real estate, commercial, agriculture and consumer loans; and 4) mortgage origination services. The Company serves individuals, small to medium-sized businesses, community organizations and public entities.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the Company’s financial condition as of September 30, 2018, the results of operations and comprehensive income for the three and nine month periods ended September 30, 2018 and 2017, and changes in stockholders’ equity and cash flows for the nine month periods ended September 30, 2018 and 2017. The condensed consolidated statement of financial condition of the Company as of December 31, 2017 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, 2017. Operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results anticipated for the year ending December 31, 2018.

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

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

Principles of Consolidation

The consolidated financial statements of the Company include the parent holding company and the Bank. The Bank consists of fourteen bank divisions, a treasury division, an information technology division and a centralized mortgage division. The treasury division includes the Bank’s investment portfolio and wholesale borrowings, the information technology division includes the Bank’s internal data processing, and the centralized mortgage division includes mortgage loan servicing and secondary market sales. The Bank divisions operate under separate names, management teams and advisory directors. The Company considers the Bank to be its sole operating segment as the Bank 1) engages in similar bank business activity from which it earns revenues and incurs expenses; 2) the operating results of

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

The Bank has subsidiary interests in variable interest entities (“VIE”) for which the Bank has both the power to direct the VIE’s significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could potentially be significant to the VIE. These subsidiary interests are included in the Company’s consolidated financial statements. The Bank also has subsidiary interests in VIEs for which the Bank does not have a controlling financial interest and is not the primary beneficiary. These subsidiary interests are not included in the Company’s consolidated financial statements.

The parent holding company owns non-bank subsidiaries that have issued trust preferred securities as Tier 1 capital instruments. The trust subsidiaries are not included in the Company’s consolidated financial statements. The Company’s investments in the trust subsidiaries are included in other assets on the Company’s statements of financial condition.

In February 2018, the Company completed its acquisition of Inter-Mountain Bancorp., Inc. and its wholly-owned subsidiary, First Security Bank, a community bank based in Bozeman, Montana (collectively, “FSB”). In January 2018, the Company completed its acquisition of Columbine Capital Corp., and its wholly-owned subsidiary, Collegiate Peaks Bank, a community bank based in Buena Vista, Colorado (collectively, “Collegiate”). The transactions were accounted for using the acquisition method, and their results of operations have been included in the Company’s consolidated financial statements as of the acquisition dates. For additional information relating to recent mergers and acquisitions, see Note 12.

#### Loans Receivable

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

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

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

The Company considers impaired loans to be the primary credit quality indicator for monitoring the credit quality of the loan portfolio. Loans are designated impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement and, therefore, the Company has serious doubts as to the ability of such

borrowers to fulfill the contractual obligation. Impaired loans include non-performing loans (i.e., non-accrual loans and accruing loans ninety days or more past due) and accruing loans under ninety days past due where it is probable payments will not be received according to the loan agreement (e.g., troubled debt restructuring). Interest income on accruing impaired loans is recognized using the interest method. The Company measures impairment on a loan-by-loan basis in the same manner for each class within the loan portfolio. An insignificant delay or shortfall in the amounts of payments would not cause a loan or lease to be considered impaired. The Company determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the facts and circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest due.

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

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

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

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

For additional information relating to loans, see Note 3.

#### Allowance for Loan and Lease Losses

Based upon management’s analysis of the Company’s loan portfolio, the balance of the ALLL is an estimate of probable credit losses known and inherent within the Bank’s loan portfolio as of the date of the consolidated financial statements. The ALLL is analyzed at the loan class level and is maintained within a range of estimated losses.

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

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

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

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

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

**Home Equity.** Home equity loans consist of junior lien mortgages and first and junior lien lines of credit (revolving open-end and amortizing closed-end) secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans is impacted by economic conditions within the Company's market areas that affect the value of the residential property securing the loans and affect the borrowers' personal incomes. Mitigating risk factors for this loan class are a large number of borrowers, geographic dispersion of market areas and the loans are originated for terms that range from 10 to 15 years.

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

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

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

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

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

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

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

#### Revenue Recognition

The Company recognizes revenue when services or products are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled. The Company's principal source of revenue is interest income from debt securities and loans. Revenue from contracts with customers within the scope of Accounting Standards Codification ("ASC") Topic 606 was \$56,519,000 and \$52,058,000 for the nine months ended September 30, 2018 and 2017, respectively, and largely consisted of revenue from service charges and other fees from deposits (e.g., overdraft fees, ATM fees, debit card fees). Due to the short-term nature of the Company's contracts with customers, an insignificant amount of receivables related to such revenue was recorded at September 30, 2018 and December 31, 2017 and there were no impairment losses recognized. Policies specific to revenue from contracts with customers include the following:

**Service Charges.** Revenue from service charges consists of service charges and fees on deposit accounts under depository agreements with customers to provide access to deposited funds and, when applicable, pay interest on deposits. Service charges on deposit accounts may be transactional or non-transactional in nature. Transactional service charges occur in the form of a service or penalty and are charged upon the occurrence of an event (e.g., overdraft fees, ATM fees, wire transfer fees). Transactional service charges are recognized as services are delivered to and consumed by the customer, or as penalty fees are charged. Non-transactional service charges are charges that are based on a broader service, such as account maintenance fees and dormancy fees, and are recognized on a monthly basis.

**Debit Card Fees.** Revenue from debit card fees includes interchange fee income from debit cards processed through card association networks. Interchange fees represent a portion of a transaction amount that the Company and other involved parties retain to compensate themselves for giving the cardholder immediate access to funds. Interchange

rates are generally set by the card association networks and are based on purchase volumes and other factors. The Company records interchange fees as services are provided.

#### Accounting Guidance Adopted in 2018

The 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. The following paragraphs provide descriptions of recently adopted accounting standards that may have had a material effect on the Company's financial position or results of operations.

**Financial Instruments.** In January 2016, FASB amended ASC Topic 825 to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments were effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2017. Amendments were to be applied by means of a cumulative-effect adjustment to the Company's statements of financial condition as of the beginning of the reporting year of adoption. The amendments impacted the Company as follows: 1) equity investments (with certain exclusions) are to be measured at fair value with the changes recognized in net income; 2) an exit price must be utilized when measuring the fair value of financial instruments; and 3) additional disclosures are required relating to other comprehensive income ("OCI"), the evaluation of a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the entity's other deferred tax assets, and other disclosures. The Company adopted the amendments effective January 1, 2018 and determined that the impact of these amendments did not have a significant impact on the Company's equity securities, fair value disclosures, financial position or results of operations. The amendments changed the method utilized to disclose the fair value of the loan portfolio to an exit price notion when measuring fair value. The Company developed processes to comply with the disclosure requirements of such amendments and accounting policies and procedures were updated accordingly. For additional information on fair value of assets and liabilities, see Note 11.

**Revenue Recognition.** In May 2014, FASB amended ASC Topic 606 to clarify the principles for recognizing revenue and develop a common revenue standard among industries. The new guidance established the following core principle: recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. Five steps were provided for a company or organization to follow to achieve such core principle. The new guidance also included a cohesive set of disclosure requirements that provided users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the new revenue recognition guidance effective January 1, 2018 and determined the majority of the Company's revenue sources, such as interest income from debt securities and loans, fee income from loans and gain on sale of loans, were not within the scope of Topic 606. The Company evaluated the revenue sources determined to be in scope of Topic 606, including service charges and fee income on deposits and gain or loss on sale of OREO and determined the adoption of the guidance did not have a significant impact to the Company's financial position or results of operations; however, OREO policies and procedures were updated and implemented and new disclosures about the Company's revenue have been incorporated into the notes to the financial statements.

#### Accounting Guidance Pending Adoption at September 30, 2018

The following paragraphs provide descriptions of newly issued but not yet effective accounting standards that could have a material effect on the Company's financial position or results of operations.

**Derivatives and Hedging.** In August 2017, FASB amended ASC Topic 815 to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, the amendments made targeted improvements to simplify the application of the hedge accounting guidance. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the full impact of the amendments on its existing interest rate swaps and whether it will early adopt. The Company does not expect there to be an impact to the Company's financial position and results of operations, although, there may be additional financial statement disclosures. The accounting policies and procedures will be modified after the Company has fully evaluated the standard, although significant changes are not expected. For additional information on derivatives, see Note 7.

**Receivables - Nonrefundable Fees and Other Costs.** In March 2017, FASB amended ASC Subtopic 310-20 to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the

premium to be amortized to the earliest call date instead of the maturity date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted and if adopted in an interim period, any adjustments should be reflected as of the beginning of the year that includes the interim period. The entity should apply the amendments on a modified retrospective basis through a cumulative-effective adjustment directly to retained earnings as of the beginning of the period of adoption. The Company has premiums on debt securities that are currently being amortized to the maturity date, primarily in the state and local governments category. If the Company were to adopt these amendments as of October 1, 2018, the Company estimates that \$22,612,000 of the premium associated with debt securities would be adjusted to retained earnings. The Company is currently reviewing the amendments to ensure it is fully compliant by the adoption date, including accounting policies and procedures, and doesn't expect to early adopt.

**Goodwill and Other Intangibles.** In January 2017, FASB amended ASC Topic 350 to simplify the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, under these amendments, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has goodwill from prior business combinations and performs an annual impairment test or more frequently if changes or circumstances occur that would more-likely-than-not reduce the fair value of the reporting unit below its carrying value. During the third quarter of 2018, the Company performed its impairment assessment and determined the fair value of the aggregated reporting units exceeded the carrying value, such that the Company's goodwill was not considered impaired. Although the Company cannot anticipate future goodwill impairment assessments, based on the most recent assessment, it is unlikely that an impairment amount would need to be calculated and, therefore, the Company does not anticipate a material impact from these amendments to the Company's financial position and results of operations. The current accounting policies and processes are not anticipated to change, except for the elimination of the Step 2 analysis. For additional information regarding goodwill impairment testing, see Note 4.

**Financial Instruments.** In June 2016, FASB amended ASC Topic 326 to replace the incurred loss model with a methodology that reflects expected credit losses over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact of these amendments to the Company's financial position and results of operations and currently does not know or cannot reasonably quantify the impact of the adoption of the amendments as a result of the complexity and extensive changes from the amendments. The ALLL is a material estimate of the Company and given the change from an incurred loss model to a methodology that considers the credit loss over the life of the loan, there is the potential for an increase in the ALLL at adoption date. The Company is anticipating a significant change in the processes and procedures to calculate the ALLL, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. The Company will also develop new procedures for determining an allowance for credit losses relating to held-to-maturity debt securities. In addition, the current accounting policy and procedures for other-than-temporary impairment on available-for-sale debt securities will be replaced with an allowance approach. The Company formed a project team and is actively reviewing the standard for developing and implementing processes and procedures to ensure it is fully compliant with the amendments at adoption date. For additional information on the ALLL, see Note 3.

**Leases.** In February 2016, FASB amended ASC Topic 842 to address several aspects of lease accounting with the significant change being the recognition of lease assets and lease liabilities for leases previously classified as operating leases. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company has lease agreements for which the amendments will require the recognition of a lease liability to make lease payments and a right-of-use asset which will represent its right to use the underlying asset for the lease term. The Company is currently reviewing the amendments to ensure it is fully compliant by the adoption date and doesn't expect to early adopt. The Company does not expect the amendments to have a material effect on the Company's financial position or results of operations since the Company does not have a significant amount of lease agreements. New processes and accounting policies will be implemented to comply with the amendments.



## Note 2. Debt Securities

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

| (Dollars in thousands)                 | September 30, 2018 |                        |           |            |
|----------------------------------------|--------------------|------------------------|-----------|------------|
|                                        | Amortized Cost     | Gross Unrealized Gains | Losses    | Fair Value |
| Available-for-sale                     |                    |                        |           |            |
| U.S. government and federal agency     | \$25,363           | 64                     | (160 )    | 25,267     |
| U.S. government sponsored enterprises  | 120,498            | —                      | (1,948 )  | 118,550    |
| State and local governments            | 647,908            | 10,040                 | (13,934 ) | 644,014    |
| Corporate bonds                        | 306,057            | 696                    | (1,528 )  | 305,225    |
| Residential mortgage-backed securities | 855,183            | 183                    | (29,202 ) | 826,164    |
| Commercial mortgage-backed securities  | 188,273            | —                      | (3,874 )  | 184,399    |
| Total available-for-sale               | 2,143,282          | 10,983                 | (50,646 ) | 2,103,619  |
| Held-to-maturity                       |                    |                        |           |            |
| State and local governments            | 590,915            | 7,482                  | (14,840 ) | 583,557    |
| Total held-to-maturity                 | 590,915            | 7,482                  | (14,840 ) | 583,557    |
| Total debt securities                  | \$2,734,197        | 18,465                 | (65,486 ) | 2,687,176  |

| (Dollars in thousands)                 | December 31, 2017 |                        |           |            |
|----------------------------------------|-------------------|------------------------|-----------|------------|
|                                        | Amortized Cost    | Gross Unrealized Gains | Losses    | Fair Value |
| Available-for-sale                     |                   |                        |           |            |
| U.S. government and federal agency     | \$31,216          | 54                     | (143 )    | 31,127     |
| U.S. government sponsored enterprises  | 19,195            | —                      | (104 )    | 19,091     |
| State and local governments            | 614,366           | 20,299                 | (5,164 )  | 629,501    |
| Corporate bonds                        | 216,443           | 802                    | (483 )    | 216,762    |
| Residential mortgage-backed securities | 785,960           | 1,253                  | (7,930 )  | 779,283    |
| Commercial mortgage-backed securities  | 104,324           | 25                     | (1,870 )  | 102,479    |
| Total available-for-sale               | 1,771,504         | 22,433                 | (15,694 ) | 1,778,243  |
| Held-to-maturity                       |                   |                        |           |            |
| State and local governments            | 648,313           | 20,346                 | (8,573 )  | 660,086    |
| Total held-to-maturity                 | 648,313           | 20,346                 | (8,573 )  | 660,086    |
| Total debt securities                  | \$2,419,817       | 42,779                 | (24,267 ) | 2,438,329  |

The following table presents the amortized cost and fair value of available-for-sale and held-to-maturity debt securities by contractual maturity at September 30, 2018. Actual maturities may differ from expected or contractual maturities since issuers have the right to prepay obligations with or without prepayment penalties.

| (Dollars in thousands)                  | September 30, 2018 |            |                  |            |
|-----------------------------------------|--------------------|------------|------------------|------------|
|                                         | Available-for-Sale |            | Held-to-Maturity |            |
|                                         | Amortized Cost     | Fair Value | Amortized Cost   | Fair Value |
| Due within one year                     | \$ 151,030         | 150,658    | —                | —          |
| Due after one year through five years   | 322,470            | 319,836    | 4,551            | 4,555      |
| Due after five years through ten years  | 284,496            | 285,279    | 108,553          | 106,980    |
| Due after ten years                     | 341,830            | 337,283    | 477,811          | 472,022    |
|                                         | 1,099,826          | 1,093,056  | 590,915          | 583,557    |
| Mortgage-backed securities <sup>1</sup> | 1,043,456          | 1,010,563  | —                | —          |
| Total                                   | \$ 2,143,282       | 2,103,619  | 590,915          | 583,557    |

<sup>1</sup> Mortgage-backed securities, which have prepayment provisions, are not assigned to maturity categories due to fluctuations in their prepayment speeds.

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

| (Dollars in thousands)                           | Three Months ended |                    | Nine Months ended  |                    |
|--------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                  | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Available-for-sale                               |                    |                    |                    |                    |
| Proceeds from sales and calls of debt securities | \$ 12,135          | 155,894            | 245,581            | 268,557            |
| Gross realized gains <sup>1</sup>                | 188                | 278                | 203                | 3,345              |
| Gross realized losses <sup>1</sup>               | (37 )              | (201 )             | (398 )             | (3,864 )           |
| Held-to-maturity                                 |                    |                    |                    |                    |
| Proceeds from calls of debt securities           | 28,435             | 3,675              | 57,370             | 18,910             |
| Gross realized gains <sup>1</sup>                | 12                 | —                  | 76                 | 153                |
| Gross realized losses <sup>1</sup>               | (530 )             | —                  | (637 )             | (179 )             |

<sup>1</sup> The gain or loss on the sale or call of each debt security is determined by the specific identification method.

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

| (Dollars in thousands)                 | September 30, 2018  |                 |                   |                 |            |                 |
|----------------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|                                        | Less than 12 Months |                 | 12 Months or More |                 | Total      |                 |
|                                        | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value | Unrealized Loss |
| Available-for-sale                     |                     |                 |                   |                 |            |                 |
| U.S. government and federal agency     | \$6,553             | (28 )           | 8,887             | (132 )          | 15,440     | (160 )          |
| U.S. government sponsored enterprises  | 112,590             | (1,791 )        | 5,960             | (157 )          | 118,550    | (1,948 )        |
| State and local governments            | 215,703             | (4,959 )        | 145,908           | (8,975 )        | 361,611    | (13,934 )       |
| Corporate bonds                        | 173,308             | (820 )          | 60,862            | (708 )          | 234,170    | (1,528 )        |
| Residential mortgage-backed securities | 328,829             | (6,397 )        | 471,471           | (22,805 )       | 800,300    | (29,202 )       |
| Commercial mortgage-backed securities  | 104,099             | (1,240 )        | 74,278            | (2,634 )        | 178,377    | (3,874 )        |
| Total available-for-sale               | \$941,082           | (15,235 )       | 767,366           | (35,411 )       | 1,708,448  | (50,646 )       |
| Held-to-maturity                       |                     |                 |                   |                 |            |                 |
| State and local governments            | \$201,181           | (6,234 )        | 90,502            | (8,606 )        | 291,683    | (14,840 )       |
| Total held-to-maturity                 | \$201,181           | (6,234 )        | 90,502            | (8,606 )        | 291,683    | (14,840 )       |

| (Dollars in thousands)                 | December 31, 2017   |                 |                   |                 |            |                 |
|----------------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|                                        | Less than 12 Months |                 | 12 Months or More |                 | Total      |                 |
|                                        | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value | Unrealized Loss |
| Available-for-sale                     |                     |                 |                   |                 |            |                 |
| U.S. government and federal agency     | \$1,208             | (5 )            | 13,179            | (138 )          | 14,387     | (143 )          |
| U.S. government sponsored enterprises  | 14,926              | (56 )           | 3,425             | (48 )           | 18,351     | (104 )          |
| State and local governments            | 61,126              | (689 )          | 121,181           | (4,475 )        | 182,307    | (5,164 )        |
| Corporate bonds                        | 99,636              | (264 )          | 29,034            | (219 )          | 128,670    | (483 )          |
| Residential mortgage-backed securities | 372,175             | (3,050 )        | 254,721           | (4,880 )        | 626,896    | (7,930 )        |
| Commercial mortgage-backed securities  | 37,650              | (469 )          | 62,968            | (1,401 )        | 100,618    | (1,870 )        |
| Total available-for-sale               | \$586,721           | (4,533 )        | 484,508           | (11,161 )       | 1,071,229  | (15,694 )       |
| Held-to-maturity                       |                     |                 |                   |                 |            |                 |
| State and local governments            | \$21,207            | (186 )          | 105,486           | (8,387 )        | 126,693    | (8,573 )        |
| Total held-to-maturity                 | \$21,207            | (186 )          | 105,486           | (8,387 )        | 126,693    | (8,573 )        |

Based on an analysis of its debt securities with unrealized losses as of September 30, 2018 and December 31, 2017, the Company determined that none of such securities had other-than-temporary impairment and the unrealized losses were primarily the result of interest rate changes and market spreads subsequent to acquisition. The fair value of the debt securities is expected to recover as payments are received and the securities approach maturity. At September 30, 2018, management determined that it did not intend to sell debt securities with unrealized losses, and there was no expected requirement to sell any of its debt securities with unrealized losses before recovery of their amortized cost.

## Note 3. Loans Receivable, Net

The Company's loan portfolio is comprised of three segments: residential real estate, commercial, and consumer and other loans. The loan segments are further disaggregated into the following classes: residential real estate, commercial real estate, other commercial, home equity and other consumer loans. The following table presents loans receivable for each portfolio class of loans:

|                                                                           | At or for the<br>Nine Months<br>ended<br>September 30,<br>2018 | At or for the<br>Year ended<br>December 31,<br>2017 |
|---------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------|
| (Dollars in thousands)                                                    |                                                                |                                                     |
| Residential real estate loans                                             | \$862,830                                                      | 720,728                                             |
| Commercial loans                                                          |                                                                |                                                     |
| Real estate                                                               | 4,527,577                                                      | 3,577,139                                           |
| Other commercial                                                          | 1,921,955                                                      | 1,579,353                                           |
| Total                                                                     | 6,449,532                                                      | 5,156,492                                           |
| Consumer and other loans                                                  |                                                                |                                                     |
| Home equity                                                               | 528,404                                                        | 457,918                                             |
| Other consumer                                                            | 282,479                                                        | 242,686                                             |
| Total                                                                     | 810,883                                                        | 700,604                                             |
| Loans receivable                                                          | 8,123,245                                                      | 6,577,824                                           |
| Allowance for loan and lease losses                                       | (132,535 )                                                     | (129,568 )                                          |
| Loans receivable, net                                                     | \$7,990,710                                                    | 6,448,256                                           |
| Net deferred origination (fees) costs included in loans receivable        | \$(4,876 )                                                     | (2,643 )                                            |
| Net purchase accounting (discounts) premiums included in loans receivable | \$(26,601 )                                                    | (16,325 )                                           |
| Weighted-average interest rate on loans (tax-equivalent)                  | 4.94                                                           | % 4.81 %                                            |

The following tables summarize the activity in the ALLL by loan class:

| Three Months ended September 30, 2018 |            |                            |                           |                     |                |                   |
|---------------------------------------|------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
| (Dollars in thousands)                | Total      | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| Balance at beginning of period        | \$ 131,564 | 10,903                     | 71,245                    | 38,664              | 6,092          | 4,660             |
| Provision for loan losses             | 3,194      | 54                         | 2,922                     | (257 )              | (165 )         | 640               |
| Charge-offs                           | (4,294 )   | (210 )                     | (909 )                    | (897 )              | (82 )          | (2,196 )          |
| Recoveries                            | 2,071      | 7                          | 308                       | 447                 | 83             | 1,226             |
| Balance at end of period              | \$ 132,535 | 10,754                     | 73,566                    | 37,957              | 5,928          | 4,330             |

| Three Months ended September 30, 2017 |            |                            |                           |                     |                |                   |
|---------------------------------------|------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
| (Dollars in thousands)                | Total      | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| Balance at beginning of period        | \$ 129,877 | 11,522                     | 68,503                    | 36,984              | 7,662          | 5,206             |
| Provision for loan losses             | 3,327      | (10 )                      | 2,214                     | 696                 | (682 )         | 1,109             |
| Charge-offs                           | (5,983 )   | (44 )                      | (3,227 )                  | (374 )              | (15 )          | (2,323 )          |
| Recoveries                            | 2,355      | 12                         | 735                       | 514                 | 16             | 1,078             |
| Balance at end of period              | \$ 129,576 | 11,480                     | 68,225                    | 37,820              | 6,981          | 5,070             |

| Nine Months ended September 30, 2018 |            |                            |                           |                     |                |                   |
|--------------------------------------|------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
| (Dollars in thousands)               | Total      | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| Balance at beginning of period       | \$ 129,568 | 10,798                     | 68,515                    | 39,303              | 6,204          | 4,748             |
| Provision for loan losses            | 8,707      | 135                        | 5,941                     | 415                 | (359 )         | 2,575             |
| Charge-offs                          | (11,905 )  | (257 )                     | (2,132 )                  | (3,325 )            | (101 )         | (6,090 )          |
| Recoveries                           | 6,165      | 78                         | 1,242                     | 1,564               | 184            | 3,097             |
| Balance at end of period             | \$ 132,535 | 10,754                     | 73,566                    | 37,957              | 5,928          | 4,330             |

| Nine Months ended September 30, 2017 |            |                            |                           |                     |                |                   |
|--------------------------------------|------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
| (Dollars in thousands)               | Total      | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| Balance at beginning of period       | \$ 129,572 | 12,436                     | 65,773                    | 37,823              | 7,572          | 5,968             |
| Provision for loan losses            | 7,938      | (946 )                     | 6,403                     | 551                 | (324 )         | 2,254             |
| Charge-offs                          | (14,801 )  | (87 )                      | (5,261 )                  | (1,855 )            | (458 )         | (7,140 )          |
| Recoveries                           | 6,867      | 77                         | 1,310                     | 1,301               | 191            | 3,988             |
| Balance at end of period             | \$ 129,576 | 11,480                     | 68,225                    | 37,820              | 6,981          | 5,070             |

The following tables disclose the recorded investment in loans and the balance in the ALLL by loan class:

| (Dollars in thousands)                | September 30, 2018 |                            |                           |                     |                |                   |
|---------------------------------------|--------------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
|                                       | Total              | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| Loans receivable                      |                    |                            |                           |                     |                |                   |
| Individually evaluated for impairment | \$ 123,576         | 14,007                     | 81,170                    | 21,973              | 3,569          | 2,857             |
| Collectively evaluated for impairment | 7,999,669          | 848,823                    | 4,446,407                 | 1,899,982           | 524,835        | 279,622           |
| Total loans receivable                | \$ 8,123,245       | 862,830                    | 4,527,577                 | 1,921,955           | 528,404        | 282,479           |
| ALLL                                  |                    |                            |                           |                     |                |                   |
| Individually evaluated for impairment | \$ 1,690           | 83                         | 650                       | 687                 | 5              | 265               |
| Collectively evaluated for impairment | 130,845            | 10,671                     | 72,916                    | 37,270              | 5,923          | 4,065             |
| Total ALLL                            | \$ 132,535         | 10,754                     | 73,566                    | 37,957              | 5,928          | 4,330             |
|                                       |                    |                            |                           |                     |                |                   |
| (Dollars in thousands)                | December 31, 2017  |                            |                           |                     |                |                   |
|                                       | Total              | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| Loans receivable                      |                    |                            |                           |                     |                |                   |
| Individually evaluated for impairment | \$ 119,994         | 12,399                     | 77,536                    | 23,032              | 3,755          | 3,272             |
| Collectively evaluated for impairment | 6,457,830          | 708,329                    | 3,499,603                 | 1,556,321           | 454,163        | 239,414           |
| Total loans receivable                | \$ 6,577,824       | 720,728                    | 3,577,139                 | 1,579,353           | 457,918        | 242,686           |
| ALLL                                  |                    |                            |                           |                     |                |                   |
| Individually evaluated for impairment | \$ 5,223           | 246                        | 500                       | 3,851               | 56             | 570               |
| Collectively evaluated for impairment | 124,345            | 10,552                     | 68,015                    | 35,452              | 6,148          | 4,178             |
| Total ALLL                            | \$ 129,568         | 10,798                     | 68,515                    | 39,303              | 6,204          | 4,748             |

Substantially all of the Company's loans receivable 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.

The following tables disclose information related to impaired loans by loan class:

| (Dollars in thousands)                       | At or for the Three or Nine Months ended September 30, 2018 |                         |                        |                  |             |                |
|----------------------------------------------|-------------------------------------------------------------|-------------------------|------------------------|------------------|-------------|----------------|
|                                              | Total                                                       | Residential Real Estate | Commercial Real Estate | Other Commercial | Home Equity | Other Consumer |
| Loans with a specific valuation allowance    |                                                             |                         |                        |                  |             |                |
| Recorded balance                             | \$20,021                                                    | 2,367                   | 9,843                  | 6,878            | 38          | 895            |
| Unpaid principal balance                     | 20,327                                                      | 2,442                   | 10,043                 | 6,878            | 38          | 926            |
| Specific valuation allowance                 | 1,690                                                       | 83                      | 650                    | 687              | 5           | 265            |
| Average balance - three months               | 18,267                                                      | 2,434                   | 10,005                 | 4,775            | 19          | 1,034          |
| Average balance - nine months                | 19,599                                                      | 2,868                   | 8,286                  | 7,034            | 72          | 1,339          |
| Loans without a specific valuation allowance |                                                             |                         |                        |                  |             |                |
| Recorded balance                             | 103,555                                                     | 11,640                  | 71,327                 | 15,095           | 3,531       | 1,962          |
| Unpaid principal balance                     | 125,552                                                     | 12,845                  | 88,290                 | 18,245           | 4,110       | 2,062          |
| Average balance - three months               | 113,734                                                     | 10,783                  | 76,027                 | 21,604           | 3,560       | 1,760          |
| Average balance - nine months                | 111,037                                                     | 10,154                  | 77,489                 | 18,293           | 3,488       | 1,613          |
| Total                                        |                                                             |                         |                        |                  |             |                |
| Recorded balance                             | 123,576                                                     | 14,007                  | 81,170                 | 21,973           | 3,569       | 2,857          |
| Unpaid principal balance                     | 145,879                                                     | 15,287                  | 98,333                 | 25,123           | 4,148       | 2,988          |
| Specific valuation allowance                 | 1,690                                                       | 83                      | 650                    | 687              | 5           | 265            |
| Average balance - three months               | 132,001                                                     | 13,217                  | 86,032                 | 26,379           | 3,579       | 2,794          |
| Average balance - nine months                | 130,636                                                     | 13,022                  | 85,775                 | 25,327           | 3,560       | 2,952          |

| (Dollars in thousands)                       | At or for the Year ended December 31, 2017 |                         |                        |                  |             |                |
|----------------------------------------------|--------------------------------------------|-------------------------|------------------------|------------------|-------------|----------------|
|                                              | Total                                      | Residential Real Estate | Commercial Real Estate | Other Commercial | Home Equity | Other Consumer |
| Loans with a specific valuation allowance    |                                            |                         |                        |                  |             |                |
| Recorded balance                             | \$17,689                                   | 2,978                   | 4,545                  | 8,183            | 186         | 1,797          |
| Unpaid principal balance                     | 18,400                                     | 3,046                   | 4,573                  | 8,378            | 199         | 2,204          |
| Specific valuation allowance                 | 5,223                                      | 246                     | 500                    | 3,851            | 56          | 570            |
| Average balance                              | 18,986                                     | 2,928                   | 5,851                  | 8,477            | 359         | 1,371          |
| Loans without a specific valuation allowance |                                            |                         |                        |                  |             |                |
| Recorded balance                             | 102,305                                    | 9,421                   | 72,991                 | 14,849           | 3,569       | 1,475          |
| Unpaid principal balance                     | 122,833                                    | 10,380                  | 89,839                 | 16,931           | 4,098       | 1,585          |
| Average balance                              | 107,945                                    | 9,834                   | 76,427                 | 15,129           | 4,734       | 1,821          |
| Total                                        |                                            |                         |                        |                  |             |                |
| Recorded balance                             | 119,994                                    | 12,399                  | 77,536                 | 23,032           | 3,755       | 3,272          |
| Unpaid principal balance                     | 141,233                                    | 13,426                  | 94,412                 | 25,309           | 4,297       | 3,789          |
| Specific valuation allowance                 | 5,223                                      | 246                     | 500                    | 3,851            | 56          | 570            |
| Average balance                              | 126,931                                    | 12,762                  | 82,278                 | 23,606           | 5,093       | 3,192          |

Interest income recognized on impaired loans for the nine months ended September 30, 2018 and 2017 was not significant.

The following tables present an aging analysis of the recorded investment in loans by loan class:

| (Dollars in thousands)                  | September 30, 2018 |                            |                           |                     |                |                   |
|-----------------------------------------|--------------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
|                                         | Total              | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| Accruing loans 30-59 days past due      | \$ 13,973          | 667                        | 5,621                     | 4,325               | 1,856          | 1,504             |
| Accruing loans 60-89 days past due      | 11,208             | 6,242                      | 989                       | 2,049               | 1,015          | 913               |
| Accruing loans 90 days or more past due | 4,333              | 2,063                      | 466                       | 1,461               | 122            | 221               |
| Non-accrual loans                       | 55,373             | 7,855                      | 34,267                    | 9,833               | 2,924          | 494               |
| Total past due and non-accrual loans    | 84,887             | 16,827                     | 41,343                    | 17,668              | 5,917          | 3,132             |
| Current loans receivable                | 8,038,358          | 846,003                    | 4,486,234                 | 1,904,287           | 522,487        | 279,347           |
| Total loans receivable                  | \$8,123,245        | 862,830                    | 4,527,577                 | 1,921,955           | 528,404        | 282,479           |

| (Dollars in thousands)                  | December 31, 2017 |                            |                           |                     |                |                   |
|-----------------------------------------|-------------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
|                                         | Total             | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| Accruing loans 30-59 days past due      | \$26,375          | 6,252                      | 12,546                    | 3,634               | 2,142          | 1,801             |
| Accruing loans 60-89 days past due      | 11,312            | 794                        | 5,367                     | 3,502               | 987            | 662               |
| Accruing loans 90 days or more past due | 6,077             | 2,366                      | 609                       | 2,973               | —              | 129               |
| Non-accrual loans                       | 44,833            | 4,924                      | 27,331                    | 8,298               | 3,338          | 942               |
| Total past due and non-accrual loans    | 88,597            | 14,336                     | 45,853                    | 18,407              | 6,467          | 3,534             |
| Current loans receivable                | 6,489,227         | 706,392                    | 3,531,286                 | 1,560,946           | 451,451        | 239,152           |
| Total loans receivable                  | \$6,577,824       | 720,728                    | 3,577,139                 | 1,579,353           | 457,918        | 242,686           |

The following tables present TDRs that occurred during the periods presented and the TDRs that occurred within the previous twelve months that subsequently defaulted during the periods presented:

| (Dollars in thousands)               | Three Months ended September 30, 2018 |                            |                           |                     |                |                   |
|--------------------------------------|---------------------------------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
|                                      | Total                                 | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| TDRs that occurred during the period |                                       |                            |                           |                     |                |                   |
| Number of loans                      | 2                                     | —                          | —                         | 1                   | —              | 1                 |
| Pre-modification recorded balance    | \$ 312                                | —                          | —                         | 7                   | —              | 305               |
| Post-modification recorded balance   | \$ 312                                | —                          | —                         | 7                   | —              | 305               |
| TDRs that subsequently defaulted     |                                       |                            |                           |                     |                |                   |
| Number of loans                      | 1                                     | 1                          | —                         | —                   | —              | —                 |
| Recorded balance                     | \$47                                  | 47                         | —                         | —                   | —              | —                 |

| (Dollars in thousands)               | Three Months ended September 30, 2017 |                            |                           |                     |                |                   |
|--------------------------------------|---------------------------------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
|                                      | Total                                 | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| TDRs that occurred during the period |                                       |                            |                           |                     |                |                   |
| Number of loans                      | 5                                     | 1                          | 1                         | 3                   | —              | —                 |
| Pre-modification recorded balance    | \$956                                 | 317                        | 386                       | 253                 | —              | —                 |
| Post-modification recorded balance   | \$956                                 | 317                        | 386                       | 253                 | —              | —                 |
| TDRs that subsequently defaulted     |                                       |                            |                           |                     |                |                   |
| Number of loans                      | —                                     | —                          | —                         | —                   | —              | —                 |
| Recorded balance                     | \$—                                   | —                          | —                         | —                   | —              | —                 |

| (Dollars in thousands)               | Nine Months ended September 30, 2018 |                            |                           |                     |                |                   |
|--------------------------------------|--------------------------------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
|                                      | Total                                | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| TDRs that occurred during the period |                                      |                            |                           |                     |                |                   |
| Number of loans                      | 22                                   | 3                          | 8                         | 8                   | 2              | 1                 |
| Pre-modification recorded balance    | \$21,582                             | 666                        | 12,901                    | 7,458               | 252            | 305               |
| Post-modification recorded balance   | \$21,468                             | 666                        | 12,787                    | 7,458               | 252            | 305               |
| TDRs that subsequently defaulted     |                                      |                            |                           |                     |                |                   |
| Number of loans                      | 1                                    | 1                          | —                         | —                   | —              | —                 |
| Recorded balance                     | \$47                                 | 47                         | —                         | —                   | —              | —                 |

| (Dollars in thousands)               | Nine Months ended September 30, 2017 |                            |                           |                     |                |                   |
|--------------------------------------|--------------------------------------|----------------------------|---------------------------|---------------------|----------------|-------------------|
|                                      | Total                                | Residential<br>Real Estate | Commercial<br>Real Estate | Other<br>Commercial | Home<br>Equity | Other<br>Consumer |
| TDRs that occurred during the period |                                      |                            |                           |                     |                |                   |
| Number of loans                      | 22                                   | 4                          | 7                         | 8                   | 2              | 1                 |
| Pre-modification recorded balance    | \$22,912                             | 652                        | 13,003                    | 9,069               | 178            | 10                |
| Post-modification recorded balance   | \$20,230                             | 652                        | 10,321                    | 9,069               | 178            | 10                |
| TDRs that subsequently defaulted     |                                      |                            |                           |                     |                |                   |
| Number of loans                      | 1                                    | —                          | —                         | 1                   | —              | —                 |
| Recorded balance                     | \$18                                 | —                          | —                         | 18                  | —              | —                 |

The modifications for the TDRs that occurred during the nine months ended September 30, 2018 and 2017 included one or a combination of the following: an extension of the maturity date, a reduction of the interest rate or a reduction in the principal amount.

In addition to the TDRs that occurred during the period provided in the preceding tables, the Company had TDRs with pre-modification loan balances of \$5,782,000 and \$5,152,000 for the nine months ended September 30, 2018 and 2017, respectively, for which OREO was received in full or partial satisfaction of the loans. The majority of such TDRs were in commercial real estate and home equity for the nine months ended September 30, 2018 and 2017, respectively. At September 30, 2018 and December 31, 2017, the Company had \$791,000 and \$743,000, respectively, of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At September 30, 2018 and December 31, 2017, the Company had \$2,559,000 and \$893,000, respectively, of OREO secured by residential real estate properties.



## Note 4. Goodwill

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

| (Dollars in thousands)                    | Three Months ended |                    | Nine Months ended  |                    |
|-------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                           | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Net carrying value at beginning of period | \$289,535          | 177,811            | 177,811            | 147,053            |
| Acquisitions                              | —                  | —                  | 111,724            | 30,758             |
| Net carrying value at end of period       | \$289,535          | 177,811            | 289,535            | 177,811            |

The Company performed its annual goodwill impairment test during the third quarter of 2018 and determined the fair value of the aggregated reporting units exceeded the carrying value, such that the Company's goodwill was not considered impaired. Changes in the economic environment, operations of the aggregated reporting units, or other factors could result in the decline in the fair value of the aggregated reporting units which could result in a goodwill impairment in the future. Accumulated impairment charges were \$40,159,000 as of September 30, 2018 and December 31, 2017.

For additional information on goodwill related to acquisitions, see Note 12.

## Note 5. Variable Interest Entities

A VIE is a partnership, limited liability company, trust or other legal entity that meets one of the following criteria: 1) the entity's equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; 2) the holders of the equity investment at risk, as a group, lack the characteristics of a controlling financial interest; and 3) the voting rights of some holders of the equity investment at risk are disproportionate to their obligation to absorb losses or receive returns, and substantially all of the activities are conducted on behalf of the holder of equity investment at risk with disproportionately few voting rights. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary, which is the party involved with the VIE that has both: 1) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance; and 2) the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company's VIEs are regularly monitored to determine if any reconsideration events have occurred that could cause the primary beneficiary status to change. A previously unconsolidated VIE is consolidated when the Company becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Company ceases to be the primary beneficiary or the entity is no longer a VIE.

## Consolidated Variable Interest Entities

The Company has equity investments in Certified Development Entities ("CDE") which have received allocations of New Markets Tax Credits ("NMTC"). The NMTC program provides federal tax incentives to investors to make investments in distressed communities and promotes economic improvements through the development of successful businesses in these communities. The NMTC is available to investors over a seven-year period and is subject to recapture if certain events occur during such period. The maximum exposure to loss in the CDEs is the amount of equity invested and credit extended by the Company. However, the Company has credit protection in the form of indemnification agreements, guarantees, and collateral arrangements. The Company has evaluated the variable interests held by the Company in each CDE (NMTC) investment and determined the Company does not individually meet the characteristics of a primary beneficiary; however, the related-party group does meet the criteria as a group

and substantially all of the activities of the CDEs either involve or are conducted on behalf of the Company. As a result, the Company is the primary beneficiary of the CDEs and their assets, liabilities, and results of operations are included in the Company's consolidated financial statements. The primary activities of the CDEs are recognized in commercial loans interest income and other borrowed funds interest expense on the Company's statements of operations and the federal income tax credit allocations from the investments are recognized in the Company's statements of operations as a component of income tax expense. Such related cash flows are recognized in loans originated, principal collected on loans and change in other borrowed funds.

The following table summarizes the carrying amounts of the consolidated VIEs' assets and liabilities included in the Company's statements of financial condition and 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.

| (Dollars in thousands)      | September 30,<br>2018 | December 31,<br>2017 |
|-----------------------------|-----------------------|----------------------|
| <b>Assets</b>               |                       |                      |
| Loans receivable            | \$ 73,862             | 57,796               |
| Accrued interest receivable | 157                   | 94                   |
| Other assets                | 41,811                | 15,885               |
| <b>Total assets</b>         | <b>\$ 115,830</b>     | <b>73,775</b>        |
| <b>Liabilities</b>          |                       |                      |
| Other borrowed funds        | \$ 9,743              | 7,964                |
| Accrued interest payable    | 14                    | 1                    |
| Other liabilities           | 30                    | 98                   |
| <b>Total liabilities</b>    | <b>\$ 9,787</b>       | <b>8,063</b>         |

#### Unconsolidated Variable Interest Entities

The Company has equity investments in Low-Income Housing Tax Credit ("LIHTC") partnerships with carrying values of \$31,702,000 and \$9,169,000 as of September 30, 2018 and December 31, 2017, respectively. The LIHTCs are indirect federal subsidies to finance low-income housing and are used in connection with both newly constructed and renovated residential rental buildings. Once a project is placed in service, it is generally eligible for the tax credit for ten consecutive years. To continue generating the tax credit and to avoid tax credit recapture, a LIHTC building must satisfy specific low-income housing compliance rules for a full fifteen-year period. The maximum exposure to loss in the VIEs is the amount of equity invested and credit extended by the Company. However, the Company has credit protection in the form of indemnification agreements, guarantees, and collateral arrangements. The Company has evaluated the variable interests held by the Company in each LIHTC investment and determined that the Company does not have controlling financial interests in such investments, and is not the primary beneficiary. The Company reports the investments in the unconsolidated LIHTCs as other assets on the Company's statements of financial condition. Total unfunded contingent commitments related to the Company's LIHTC investments totaled \$10,293,000 at September 30, 2018, of which \$3,856,000 is expected to be fulfilled in 2018 and \$6,437,000 is expected to be fulfilled in 2019. There were no impairment losses on the Company's LIHTC investments during the nine months ended September 30, 2018 and 2017.

The Company has elected to use the proportional amortization method, and more specifically the practical expedient method, for the amortization of all eligible LIHTC investments and amortization expense is recognized as a component of income tax expense. The following table summarizes the amortization expense and the amount of tax credits and other tax benefits recognized for qualified affordable housing project investments during the periods presented.

| (Dollars in thousands)                        | Three Months ended<br>September 30, |       | Nine Months ended<br>September 30, |       |
|-----------------------------------------------|-------------------------------------|-------|------------------------------------|-------|
|                                               | 2018                                | 2017  | 2018                               | 2017  |
| Amortization expense                          | \$ 1,177                            | 682   | 3,098                              | 1,825 |
| Tax credits and other tax benefits recognized | 1,651                               | 1,040 | 4,314                              | 2,792 |

The Company also 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 have no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the securities held by third parties. The trust subsidiaries are not included in the Company's consolidated financial statements because the sole asset of each trust subsidiary is a receivable from the Company, even though the Company owns all of the voting equity shares of the trust subsidiaries, has fully guaranteed the obligations of the trust subsidiaries and may have the right to redeem the third party securities under certain circumstances. The Company reports the trust preferred securities issued to the trust subsidiaries as subordinated debentures on the Company's statements of financial condition.

## Note 6. Securities Sold Under Agreements to Repurchase

The Company's securities sold under agreements to repurchase ("repurchase agreements") totaled \$408,754,000 and \$362,573,000 at September 30, 2018 and December 31, 2017, respectively, and are secured by debt securities with carrying values of \$489,635,000 and \$475,601,000, respectively. Securities are pledged to customers at the time of the transaction in an amount at least equal to the outstanding balance and are held in custody accounts by third parties. The fair value of collateral is continually monitored and additional collateral is provided as deemed appropriate. The following tables summarize the carrying value of the Company's repurchase agreements by remaining contractual maturity and category of collateral:

| (Dollars in thousands)                 | September 30, 2018                               |              |                      |         |
|----------------------------------------|--------------------------------------------------|--------------|----------------------|---------|
|                                        | Remaining Contractual Maturity of the Agreements |              |                      |         |
|                                        | Overnight and Continuous                         | 30 - 90 Days | Greater Than 90 Days | Total   |
| State and local governments            | \$19,188                                         | —            | 39,461               | 58,649  |
| Residential mortgage-backed securities | 349,157                                          | —            | —                    | 349,157 |
| Commercial mortgage-backed securities  | 948                                              | —            | —                    | 948     |
| Total                                  | \$369,293                                        | —            | 39,461               | 408,754 |

| (Dollars in thousands)                 | December 31, 2017                                |              |                      |         |
|----------------------------------------|--------------------------------------------------|--------------|----------------------|---------|
|                                        | Remaining Contractual Maturity of the Agreements |              |                      |         |
|                                        | Overnight and Continuous                         | 30 - 90 Days | Greater Than 90 Days | Total   |
| Residential mortgage-backed securities | \$360,751                                        | —            | —                    | 360,751 |
| Commercial mortgage-backed securities  | 1,822                                            | —            | —                    | 1,822   |
| Total                                  | \$362,573                                        | —            | —                    | 362,573 |

## Note 7. Derivatives and Hedging Activities

## Interest Rate Swap Derivatives

As of September 30, 2018, the Company's interest rate swap derivative financial instruments were designated as cash flow hedges and are summarized as follows:

| (Dollars in thousands) | Forecasted Notional Amount | Variable Interest Rate <sup>1</sup> | Fixed Interest Rate <sup>1</sup> |   | Payment Term                  |
|------------------------|----------------------------|-------------------------------------|----------------------------------|---|-------------------------------|
| Interest rate swap     | \$ 160,000                 | 3 month LIBOR                       | 3.378                            | % | Oct. 21, 2014 - Oct. 21, 2021 |
| Interest rate swap     | 100,000                    | 3 month LIBOR                       | 2.498                            | % | Nov. 30, 2015 - Nov. 30, 2022 |

<sup>1</sup> The Company pays the fixed interest rate and the counterparty pays the Company the variable interest rate.

The hedging strategy converts the LIBOR-based variable interest rate on borrowings to a fixed interest rate, thereby protecting the Company from interest rate variability.



The interest rate swaps with the \$160,000,000 and \$100,000,000 notional amounts began their payment terms in October 2014 and November 2015, respectively. The Company designated wholesale deposits and Federal Home Loan Bank (“FHLB”) advances as the cash flow hedge and these hedged items were determined to be fully effective during current and prior periods. As such, no amount of ineffectiveness has been included in the Company’s statements of operations for the three and nine months ended September 30, 2018 and 2017. Therefore, the aggregate fair value of the interest rate swaps was recorded in other liabilities with changes recorded in OCI. The Company expects the hedges to remain highly effective during the remaining terms of the interest rate swaps. Interest expense recorded on the interest rate swaps totaled \$5,993,000 for the nine months ended September 30, 2018 and 2017, and is reported as a component of interest expense on deposits and FHLB advances. Unless the interest rate swaps are terminated during the next year, the Company expects \$1,835,000 of the unrealized loss reported in OCI at September 30, 2018 to be reclassified to interest expense during the next twelve months.

The following table presents the pre-tax gains or losses recorded in OCI and the Company’s statements of operations relating to the interest rate swap derivative financial instruments:

| (Dollars in thousands)                                                        | Three Months ended<br>September 30, 2018 |    | September 30, 2017 |   | Nine Months ended<br>September 30, 2018 |        | September 30, 2017 |  |
|-------------------------------------------------------------------------------|------------------------------------------|----|--------------------|---|-----------------------------------------|--------|--------------------|--|
|                                                                               |                                          |    |                    |   |                                         |        |                    |  |
| Interest rate swaps                                                           |                                          |    |                    |   |                                         |        |                    |  |
| Amount of gain (loss) recognized in OCI (effective portion)                   | \$1,234                                  | 45 |                    |   | 7,302                                   | (1,799 | )                  |  |
| Amount of loss reclassified from OCI to interest expense                      | (469                                     | )  | (1,182             | ) | (1,946)                                 | (3,776 | )                  |  |
| Amount of loss recognized in other non-interest expense (ineffective portion) | —                                        | —  |                    |   | —                                       | —      |                    |  |

The following table discloses the offsetting of financial assets and interest rate swap derivative assets.

| (Dollars in thousands) | September 30, 2018                |                                                             |                                                                         | December 31, 2017                 |                                                             |                                                                         |
|------------------------|-----------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------|
|                        | Gross Amount of Recognized Assets | Gross Amount Offset in the Statements of Financial Position | Net Amounts of Assets Presented in the Statements of Financial Position | Gross Amount of Recognized Assets | Gross Amount Offset in the Statements of Financial Position | Net Amounts of Assets Presented in the Statements of Financial Position |
| Interest rate swaps    | \$2,006                           | (2,006                                                      | ) —                                                                     | —                                 | —                                                           | —                                                                       |

The following table discloses the offsetting of financial liabilities and interest rate swap derivative liabilities.

| (Dollars in thousands) | September 30, 2018                      |                                                              |                                                                              | December 31, 2017                       |                                                              |                                                                              |
|------------------------|-----------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------------------|
|                        | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statements of Financial Position | Net Amounts of Liabilities Presented in the Statements of Financial Position | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statements of Financial Position | Net Amounts of Liabilities Presented in the Statements of Financial Position |
|                        |                                         |                                                              |                                                                              |                                         |                                                              |                                                                              |

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|                     |                  | Financial<br>Position |         | Financial<br>Position |
|---------------------|------------------|-----------------------|---------|-----------------------|
| Interest rate swaps | \$2,148 (2,006 ) | 142                   | 9,389 — | 9,389                 |

Pursuant to the interest rate swap agreements, the Company pledged collateral to the counterparty in the form of debt securities totaling \$4,935,000 at September 30, 2018. There was \$0 collateral pledged from the counterparty to the Company as of September 30, 2018. There is the possibility that the Company may need to pledge additional collateral in the future if there were declines in the fair value of the interest rate swap derivative financial instruments versus the collateral pledged.

## Residential Real Estate Derivatives

At September 30, 2018, the Company had residential real estate derivatives for commitments (“interest rate locks”) to fund certain residential real estate loans to be sold into the secondary market. At September 30, 2018 and December 31, 2017, loans with interest rate lock commitments totaled \$97,427,000 and \$67,861,000, respectively, and the fair value of the related derivatives was included in other assets with corresponding changes recorded in gain on sale of loans. It has been the Company’s practice to enter into “best efforts” forward sales commitments for the future delivery of residential real estate loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. Forward sales commitments on a “best efforts” basis are not designated in hedge relationships until the loan is funded. Due to the forward sales commitments being short-term in nature, the corresponding derivatives were not significant and were not recorded. During 2018, the Company also began to enter into free-standing derivatives to mitigate the interest rate risk associated with certain residential real estate loans to be sold. These derivatives include forward commitments to sell to-be-announced securities (“TBA”) which are used to economically hedge the interest rate risk associated with certain residential real estate loans held for sale and unfunded commitments. At September 30, 2018, TBA commitments were \$71,000,000 and the fair value of the related derivatives was included in other liabilities with corresponding changes recorded in gain on sale of loans.

## Note 8. Other Expenses

Other expenses consists of the following:

| (Dollars in thousands)              | Three Months ended |                    | Nine Months ended  |                    |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                     | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Mergers and acquisition expenses    | \$1,336            | 245                | 6,098              | 1,194              |
| Consulting and outside services     | 1,986              | 1,247              | 5,160              | 3,651              |
| Telephone                           | 1,187              | 988                | 3,350              | 2,899              |
| Debit card expenses                 | 533                | 1,840              | 3,321              | 5,352              |
| Employee expenses                   | 1,089              | 1,055              | 3,022              | 2,969              |
| Loan expenses                       | 947                | 653                | 2,735              | 2,266              |
| VIE amortization and other expenses | 1,118              | 1,041              | 2,530              | 2,453              |
| Postage                             | 772                | 646                | 2,327              | 2,007              |
| Printing and supplies               | 769                | 605                | 2,252              | 1,913              |
| Business development                | 672                | 641                | 1,782              | 1,434              |
| Legal fees                          | 464                | 319                | 1,245              | 825                |
| Accounting and audit fees           | 383                | 499                | 1,194              | 1,508              |
| ATM expenses                        | 293                | 641                | 927                | 1,335              |
| Checking and operating expenses     | 404                | 564                | 871                | 1,291              |
| Other                               | 1,165              | 1,214              | 3,516              | 3,026              |
| Total other expenses                | \$13,118           | 12,198             | 40,330             | 34,123             |

## Note 9. Accumulated Other Comprehensive Loss

The following table illustrates the activity within accumulated other comprehensive loss by component, net of tax:

| (Dollars in thousands)                                         | Gains (Losses) on<br>Available-For-Sale<br>Debt Securities | Losses on<br>Derivatives<br>Used for<br>Cash Flow<br>Hedges | Total    |
|----------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------|----------|
| Balance at December 31, 2016                                   | \$ 1,639                                                   | (9,021 )                                                    | (7,382 ) |
| Other comprehensive income (loss) before reclassifications     | 10,520                                                     | (1,102 )                                                    | 9,418    |
| Reclassification adjustments for losses included in net income | 318                                                        | 2,313                                                       | 2,631    |
| Net current period other comprehensive income                  | 10,838                                                     | 1,211                                                       | 12,049   |
| Balance at September 30, 2017                                  | \$ 12,477                                                  | (7,810 )                                                    | 4,667    |
| Balance at December 31, 2017                                   | \$ 5,031                                                   | (7,010 )                                                    | (1,979 ) |
| Other comprehensive (loss) income before reclassifications     | (34,789 )                                                  | 5,452                                                       | (29,337) |
| Reclassification adjustments for losses included in net income | 146                                                        | 1,453                                                       | 1,599    |
| Net current period other comprehensive (loss) income           | (34,643 )                                                  | 6,905                                                       | (27,738) |
| Balance at September 30, 2018                                  | \$ (29,612 )                                               | (105 )                                                      | (29,717) |

## Note 10. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period presented. Diluted earnings per share is computed by including the net increase in shares as if dilutive outstanding restricted stock awards were vested and stock options were exercised, using the treasury stock method.

Basic and diluted earnings per share has been computed based on the following:

| (Dollars in thousands, except per share data)                  | Three Months ended<br>September 30, |            | Nine Months ended<br>September 30, |            |
|----------------------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                                | 2018                                | 2017       | 2018                               | 2017       |
| Net income available to common stockholders, basic and diluted | \$49,336                            | 36,479     | 132,279                            | 101,421    |
| Average outstanding shares - basic                             | 84,518,407                          | 88,004,450 | 83,294,111                         | 77,379,514 |
| Add: dilutive restricted stock awards and stock options        | 74,715                              | 61,492     | 68,212                             | 63,430     |
| Average outstanding shares - diluted                           | 84,593,122                          | 88,065,942 | 83,362,323                         | 77,442,944 |
| Basic earnings per share                                       | \$0.58                              | 0.47       | 1.59                               | 1.31       |
| Diluted earnings per share                                     | \$0.58                              | 0.47       | 1.59                               | 1.31       |

There were no restricted stock awards or stock options excluded from the diluted average outstanding share calculation for the nine months ended September 30, 2018 and 2017, respectively. Anti-dilution occurs when the unrecognized compensation cost per share of a restricted stock award or the exercise price of a stock option exceeds the market price of the Company's stock.

## Note 11. Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Transfers in and out of Level 1 (quoted prices in active markets), Level 2 (significant other observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date. There were no transfers between fair value hierarchy levels during the nine month periods ended September 30, 2018 and 2017.

### Recurring Measurements

The following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended September 30, 2018.

Debt securities, available-for-sale: fair value for available-for-sale debt securities is estimated by obtaining quoted market prices for identical assets, where available. If such prices are not available, fair value is based on independent asset pricing services and models, the inputs of which are market-based or independently sourced market parameters, including but not limited to, yield curves, interest rates, volatilities, market spreads, prepayments, defaults, recoveries, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. Where Level 1 or Level 2 inputs are not available, such securities are classified as Level 3 within the hierarchy.

Fair value determinations of available-for-sale debt securities are the responsibility of the Company's corporate accounting and treasury departments. The Company obtains fair value estimates from independent third party vendors on a monthly basis. The vendors' pricing system methodologies, procedures and system controls are reviewed to ensure they are appropriately designed and operating effectively. The Company reviews the vendors' inputs for fair value estimates and the recommended assignments of levels within the fair value hierarchy. The review includes the extent to which markets for debt securities are determined to have limited or no activity, or are judged to be active markets. The Company reviews the extent to which observable and unobservable inputs are used as well as the appropriateness of the underlying assumptions about risk that a market participant would use in active markets, with adjustments for limited or inactive markets. In considering the inputs to the fair value estimates, the Company places less reliance on quotes that are judged to not reflect orderly transactions, or are non-binding indications. In assessing credit risk, the Company reviews payment performance, collateral adequacy, third party research and analyses, credit rating histories and issuers' financial statements. For those markets determined to be inactive or limited, the valuation techniques used are models for which management has verified that discount rates are appropriately adjusted to reflect illiquidity and credit risk.

Loans held for sale, at fair value: loans held for sale measured at fair value, for which an active secondary market and readily available market prices exist, are initially valued at the transaction price and are subsequently valued by using

quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors. Loans held for sale measured at fair value are classified within Level 2. Included in gain on sale of loans were net losses of \$239,000 and net gains of \$893,000 for the nine month periods ended September 30, 2018 and 2017, respectively, from the changes in fair value of loans held for sale measured at fair value. Electing to measure loans held for sale at fair value reduces certain timing differences and better matches changes in fair value of these assets with changes in the value of the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

Interest rate swap derivative financial instruments: fair values for interest rate swap derivative financial instruments are based upon the estimated amounts to settle the contracts considering current interest rates and are calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. The inputs used to determine fair value include the 3 month LIBOR forward curve to estimate variable rate cash inflows and the Fed Funds Effective Swap Rate to estimate the discount rate. The estimated variable rate cash inflows are compared to the fixed rate outflows and such difference is discounted to a present value to estimate the fair value of the interest rate swaps. The Company also obtains and compares the reasonableness of the pricing from an independent third party.

The following tables disclose the fair value measurement of assets and liabilities measured at fair value on a recurring basis:

| (Dollars in thousands)                                        | Fair Value<br>September<br>30, 2018 | Fair Value Measurements<br>At the End of the Reporting<br>Period Using                    |                                                    |
|---------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------|
|                                                               |                                     | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Debt securities, available-for-sale                           |                                     |                                                                                           |                                                    |
| U.S. government and federal agency                            | \$25,267                            | —25,267                                                                                   | —                                                  |
| U.S. government sponsored enterprises                         | 118,550                             | —118,550                                                                                  | —                                                  |
| State and local governments                                   | 644,014                             | —644,014                                                                                  | —                                                  |
| Corporate bonds                                               | 305,225                             | —305,225                                                                                  | —                                                  |
| Residential mortgage-backed securities                        | 826,164                             | —826,164                                                                                  | —                                                  |
| Commercial mortgage-backed securities                         | 184,399                             | —184,399                                                                                  | —                                                  |
| Loans held for sale, at fair value                            | 50,649                              | —50,649                                                                                   | —                                                  |
| Total assets measured at fair value on a recurring basis      | \$2,154,268                         | —2,154,268                                                                                | —                                                  |
| Interest rate swaps                                           | \$142                               | —142                                                                                      | —                                                  |
| Total liabilities measured at fair value on a recurring basis | \$142                               | —142                                                                                      | —                                                  |

| (Dollars in thousands) | Fair Value<br>December<br>31, 2017 | Fair Value Measurements<br>At the End of the Reporting<br>Period Using                    |                                                    |
|------------------------|------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------|
|                        |                                    | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |

|                                                               |              |            |   |
|---------------------------------------------------------------|--------------|------------|---|
| Debt securities, available-for-sale                           |              |            |   |
| U.S. government and federal agency                            | \$ 31,127    | —31,127    | — |
| U.S. government sponsored enterprises                         | 19,091       | —19,091    | — |
| State and local governments                                   | 629,501      | —629,501   | — |
| Corporate bonds                                               | 216,762      | —216,762   | — |
| Residential mortgage-backed securities                        | 779,283      | —779,283   | — |
| Commercial mortgage-backed securities                         | 102,479      | —102,479   | — |
| Loans held for sale, at fair value                            | 38,833       | —38,833    | — |
| Total assets measured at fair value on a recurring basis      | \$ 1,817,076 | —1,817,076 | — |
| Interest rate swaps                                           | \$ 9,389     | —9,389     | — |
| Total liabilities measured at fair value on a recurring basis | \$ 9,389     | —9,389     | — |

### Non-recurring Measurements

The following is a description of the inputs and valuation methodologies used for assets recorded at fair value on a non-recurring basis, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended September 30, 2018.

Other real estate owned: OREO is initially recorded at fair value less estimated cost to sell, establishing a new cost basis. OREO is subsequently accounted for at lower of cost or fair value less estimated cost to sell. Estimated fair value of OREO is based on appraisals or evaluations (new or updated). OREO is classified within Level 3 of the fair value hierarchy.

Collateral-dependent impaired loans, net of ALLL: loans included in the Company's loan portfolio for which it is probable that the Company will not collect all principal and interest due according to contractual terms are considered impaired. Estimated fair value of collateral-dependent impaired loans is based on the fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company's credit department reviews appraisals for OREO and collateral-dependent loans, giving consideration to the highest and best use of the collateral. The appraisal or evaluation (new or updated) is considered the starting point for determining fair value. The valuation techniques used in preparing appraisals or evaluations (new or updated) include the cost approach, income approach, sales comparison approach, or a combination of the preceding valuation techniques. The key inputs used to determine the fair value of the collateral-dependent loans and OREO include selling costs, discounted cash flow rate or capitalization rate, and adjustment to comparables. Valuations and significant inputs obtained by independent sources are reviewed by the Company for accuracy and reasonableness. The Company also considers other factors and events in the environment that may affect the fair value. The appraisals or evaluations (new or updated) are reviewed at least quarterly and more frequently based on current market conditions, including deterioration in a borrower's financial condition and when property values may be subject to significant volatility. After review and acceptance of the collateral appraisal or evaluation (new or updated), adjustments to the impaired loan or OREO may occur. The Company generally obtains appraisals or evaluations (new or updated) annually.

The following tables disclose the fair value measurement of assets with a recorded change during the period resulting from re-measuring the assets at fair value on a non-recurring basis:

| (Dollars in thousands)                                       | Fair Value<br>September<br>30, 2018 | Fair Value Measurements<br>At the End of the Reporting<br>Period Using                 |                                                    |
|--------------------------------------------------------------|-------------------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------|
|                                                              |                                     | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Other real estate owned                                      | \$ 3,457                            | —                                                                                      | 3,457                                              |
| Collateral-dependent impaired loans, net of ALLL             | 9,257                               | —                                                                                      | 9,257                                              |
| Total assets measured at fair value on a non-recurring basis | \$ 12,714                           | —                                                                                      | 12,714                                             |



| (Dollars in thousands)                                       | Fair Value<br>December<br>31, 2017 | Fair Value Measurements<br>At the End of the Reporting<br>Period Using                 |                                                    |
|--------------------------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------|
|                                                              |                                    | Quoted<br>Prices<br>in Significant<br>Markets<br>for Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Other real estate owned                                      | \$ 2,296                           | —                                                                                      | 2,296                                              |
| Collateral-dependent impaired loans, net of ALLL             | 6,339                              | —                                                                                      | 6,339                                              |
| Total assets measured at fair value on a non-recurring basis | \$ 8,635                           | —                                                                                      | 8,635                                              |

## Non-recurring Measurements Using Significant Unobservable Inputs (Level 3)

The following tables present additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

| (Dollars in thousands)                           | Fair Value<br>September<br>30, 2018 | Quantitative Information about Level 3 Fair Value Measurements |                                                          |
|--------------------------------------------------|-------------------------------------|----------------------------------------------------------------|----------------------------------------------------------|
|                                                  |                                     | Valuation Technique                                            | Unobservable Input Range (Weighted-Average) <sup>1</sup> |
| Other real estate owned                          | \$ 3,457                            | Sales comparison approach                                      | Selling costs 7.0% - 15.0% (7.5%)                        |
| Collateral-dependent impaired loans, net of ALLL | \$ 13                               | Cost approach                                                  | Selling costs 20.0% - 20.0% (20.0%)                      |
|                                                  | 4,197                               | Sales comparison approach                                      | Selling costs 8.0% - 20.0% (10.4%)                       |
|                                                  | 5,047                               | Combined approach                                              | Selling costs 10.0% - 10.0% (10.0%)                      |
|                                                  | \$ 9,257                            |                                                                |                                                          |
| (Dollars in thousands)                           | Fair Value<br>December<br>31, 2017  | Quantitative Information about Level 3 Fair Value Measurements |                                                          |
|                                                  |                                     | Valuation Technique                                            | Unobservable Input Range (Weighted-Average) <sup>1</sup> |
| Other real estate owned                          | \$ 2,296                            | Sales comparison approach                                      | Selling costs 0.0% - 10.0% (6.0%)                        |
| Collateral-dependent impaired loans, net of ALLL | \$ 238                              | Cost approach                                                  | Selling costs 10.0% - 20.0% (10.6%)                      |
|                                                  | 2,541                               | Sales comparison approach                                      | Selling costs 8.0% - 10.0% (9.4%)                        |
|                                                  | 3,560                               | Combined approach                                              | Selling costs 10.0% - 10.0% (10.0%)                      |
|                                                  | \$ 6,339                            |                                                                |                                                          |

<sup>1</sup> The range for selling cost inputs represents reductions to the fair value of the assets.



## Fair Value of Financial Instruments

The following tables present the carrying amounts, estimated fair values and the level within the fair value hierarchy of the Company's financial instruments not carried at fair value. Receivables and payables due in one year or less, equity securities without readily determinable fair values and deposits with no defined or contractual maturities are excluded.

| (Dollars in thousands)                         | Carrying<br>Amount<br>September<br>30, 2018 | Fair Value Measurements<br>At the End of the Reporting Period<br>Using<br>Quoted<br>Prices<br>in Active Markets for Identical Assets (Level 1) |                                            |                                                    |
|------------------------------------------------|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|----------------------------------------------------|
|                                                |                                             | Significant<br>Markets<br>for<br>Identical<br>Assets<br>(Level 2)                                                                              | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Financial assets                               |                                             |                                                                                                                                                |                                            |                                                    |
| Cash and cash equivalents                      | \$307,104                                   | 307,104                                                                                                                                        | —                                          | —                                                  |
| Debt securities, held-to-maturity              | 590,915                                     | —                                                                                                                                              | 583,557                                    | —                                                  |
| Loans receivable, net of ALLL                  | 7,990,710                                   | —                                                                                                                                              | —                                          | 8,002,596                                          |
| Total financial assets                         | \$8,888,729                                 | 307,104                                                                                                                                        | 583,557                                    | 8,002,596                                          |
| Financial liabilities                          |                                             |                                                                                                                                                |                                            |                                                    |
| Term deposits                                  | \$1,083,882                                 | —                                                                                                                                              | 1,085,035                                  | —                                                  |
| FHLB advances                                  | 155,328                                     | —                                                                                                                                              | 155,281                                    | —                                                  |
| Repurchase agreements and other borrowed funds | 418,698                                     | —                                                                                                                                              | 418,699                                    | —                                                  |
| Subordinated debentures                        | 134,055                                     | —                                                                                                                                              | 123,363                                    | —                                                  |
| Total financial liabilities                    | \$1,791,963                                 | —                                                                                                                                              | 1,782,378                                  | —                                                  |

| (Dollars in thousands)            | Carrying<br>Amount<br>December<br>31, 2017 | Fair Value Measurements<br>At the End of the Reporting Period<br>Using<br>Quoted<br>Prices<br>in Active Markets for Identical Assets (Level 1) |                                            |                                                    |
|-----------------------------------|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|----------------------------------------------------|
|                                   |                                            | Significant<br>Markets<br>for<br>Identical<br>Assets<br>(Level 2)                                                                              | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Financial assets                  |                                            |                                                                                                                                                |                                            |                                                    |
| Cash and cash equivalents         | \$200,004                                  | 200,004                                                                                                                                        | —                                          | —                                                  |
| Debt securities, held-to-maturity | 648,313                                    | —                                                                                                                                              | 660,086                                    | —                                                  |
| Loans receivable, net of ALLL     | 6,448,256                                  | —                                                                                                                                              | 6,219,515                                  | 114,771                                            |
| Total financial assets            | \$7,296,573                                | 200,004                                                                                                                                        | 6,879,601                                  | 114,771                                            |
| Financial liabilities             |                                            |                                                                                                                                                |                                            |                                                    |

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|                                                |             |   |           |   |
|------------------------------------------------|-------------|---|-----------|---|
| Term deposits                                  | \$977,302   | — | 978,803   | — |
| FHLB advances                                  | 353,995     | — | 352,886   | — |
| Repurchase agreements and other borrowed funds | 370,797     | — | 370,797   | — |
| Subordinated debentures                        | 126,135     | — | 98,023    | — |
| Total financial liabilities                    | \$1,828,229 | — | 1,800,509 | — |

## Note 12. Mergers and Acquisitions

On February 28, 2018, the Company acquired 100 percent of the outstanding common stock of Inter-Mountain Bancorp., Inc. and its wholly-owned subsidiary, First Security Bank, a community bank based in Bozeman, Montana. FSB provides banking services to individuals and businesses throughout Montana with banking offices located in Bozeman, Belgrade, Big Sky, Choteau, Fairfield, Fort Benton, Three Forks, Vaughn and West Yellowstone. The acquisition expands the Company's presence in the Bozeman and Golden Triangle markets in Montana and further diversifies the Company's loan, customer and deposit base. FSB merged into the Bank and became a new bank division headquartered in Bozeman and the Bank's existing Bozeman-based division, Big Sky Western Bank, combined with the new FSB division. The agriculture-focused northern branches of FSB combined with the Bank's First Bank of Montana division. The preliminary value of the FSB acquisition was \$181,043,000 and resulted in the Company issuing 4,654,091 shares of its common stock. The fair value of the Company shares issued was determined on the basis of the closing market price of the Company's common stock on the February 28, 2018 acquisition date. The excess of the preliminary fair value of consideration transferred over total identifiable net assets was recorded as goodwill. The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and FSB. None of the goodwill is deductible for income tax purposes as the acquisition was accounted for as a tax-free exchange.

On January 31, 2018, the Company acquired 100 percent of the outstanding common stock of Columbine Capital Corp. and its wholly-owned subsidiary, Collegiate Peaks Bank, a community bank based in Buena Vista, Colorado. Collegiate provides banking services to businesses and individuals in the Mountain and Front Range communities of Colorado, with banking offices located in Aurora, Buena Vista, Denver and Salida. The acquisition expands the Company's presence in Colorado to the mountains and along the Front Range and further diversifies the Company's loan, customer and deposit base. Collegiate merged into the Bank and operates as a separate Bank division under its existing name and management team. The preliminary value of the Collegiate acquisition was \$96,083,000 and resulted in the Company issuing 1,778,777 shares of its common stock and paying \$16,265,000 in cash in exchange for all of Collegiate's outstanding common stock shares and \$10,054,000 due to an effective settlement of pre-existing receivable from Columbine Capital Corp. The fair value of the Company shares issued was determined on the basis of the closing market price of the Company's common stock on the January 31, 2018 acquisition date. The excess of the preliminary fair value of consideration transferred over total identifiable net assets was recorded as goodwill. The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and Collegiate. None of the goodwill is deductible for income tax purposes as the acquisition was accounted for as a tax-free exchange.

The assets and liabilities of FSB and Collegiate were recorded on the Company's consolidated statements of financial condition at their preliminary estimated fair values as of the February 28, 2018 and January 31, 2018 acquisition dates, respectively, and their results of operations have been included in the Company's consolidated statements of operations since those dates. The following table discloses the preliminary fair value estimates of the consideration transferred, the total identifiable net assets acquired and the resulting goodwill arising from the FSB and Collegiate acquisitions. The Company is continuing to obtain information to determine the fair values of the acquired assets and liabilities.

| (Dollars in thousands)                                                     | FSB<br>February 28,<br>2018 | Collegiate<br>January 31,<br>2018 |
|----------------------------------------------------------------------------|-----------------------------|-----------------------------------|
| Fair value of consideration transferred                                    |                             |                                   |
| Fair value of Company shares issued, net of equity issuance costs          | \$ 181,043                  | 69,764                            |
| Cash consideration for outstanding shares                                  | —                           | 16,265                            |
| Effective settlement of a pre-existing relationship                        | —                           | 10,054                            |
| Total fair value of consideration transferred                              | 181,043                     | 96,083                            |
| Recognized amounts of identifiable assets acquired and liabilities assumed |                             |                                   |
| Identifiable assets acquired                                               |                             |                                   |
| Cash and cash equivalents                                                  | 24,397                      | 93,136                            |
| Debt securities                                                            | 271,865                     | 42,177                            |
| Loans receivable                                                           | 627,767                     | 354,252                           |
| Core deposit intangible <sup>1</sup>                                       | 31,053                      | 10,275                            |
| Accrued income and other assets                                            | 78,325                      | 15,911                            |
| Total identifiable assets acquired                                         | 1,033,407                   | 515,751                           |
| Liabilities assumed                                                        |                             |                                   |
| Deposits                                                                   | 877,586                     | 437,171                           |
| Borrowings <sup>2</sup>                                                    | 36,880                      | 12,509                            |
| Accrued expenses and other liabilities                                     | 14,175                      | 5,435                             |
| Total liabilities assumed                                                  | 928,641                     | 455,115                           |
| Total identifiable net assets                                              | 104,766                     | 60,636                            |
| Goodwill recognized                                                        | \$ 76,277                   | 35,447                            |

<sup>1</sup> The core deposit intangible for each acquisition was determined to have an estimated life of 10 years.

<sup>2</sup> Borrowings assumed with the FSB acquisition include Tier 2 subordinated debentures of \$7,903,000.

The preliminary fair values of the FSB and Collegiate assets acquired include loans with preliminary fair values of \$627,767,000 and \$354,252,000, respectively. The gross principal and contractual interest due under the FSB and Collegiate contracts was \$632,370,000 and \$355,364,000, respectively. The Company evaluated the principal and contractual interest due at each of the acquisition dates and determined that insignificant amounts were not expected to be collectible.

The Company incurred \$4,670,000 and \$1,276,000 of expenses in connection with the FSB and Collegiate acquisitions, respectively, during the nine months ended September 30, 2018. Mergers and acquisition expenses are included in other expense in the Company's consolidated statements of operations and consist of third-party costs, conversion costs and employee retention and severance expenses.

Total income consisting of net interest income and non-interest income of the acquired operations of FSB was approximately \$29,901,000 and net income was approximately \$7,793,000 from February 28, 2018 to September 30, 2018. Total income consisting of net interest income and non-interest income of the acquired operations of Collegiate was approximately \$16,957,000 and net income was approximately \$3,472,000 from January 31, 2018 to September 30, 2018.

The following unaudited pro forma summary presents consolidated information of the Company as if the FSB and Collegiate acquisitions had occurred on January 1, 2017:

| (Dollars in thousands)                      | Three Months ended |                    | Nine Months ended  |                    |
|---------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                             | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Net interest income and non-interest income | \$146,161          | 135,768            | 416,611            | 385,875            |
| Net income                                  | 49,336             | 41,623             | 127,668            | 116,174            |

## Item 2. 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 Glacier Bancorp, Inc.'s ("Company") 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 "Part I. Item 1. Financial Statements."

### FORWARD-LOOKING STATEMENTS

This Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about management's plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "should," "projects," "seeks," "estimates" or words of similar nature. These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. In addition to the factors set forth in the sections titled "Risk Factors," "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", as applicable, in this report and the Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Annual Report"), the following factors, among others, could cause actual results to differ materially from the anticipated results:

- the risks associated with lending and potential adverse changes of the credit quality of loans in the Company's portfolio;
- changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System or the Federal Reserve Board, which could adversely affect the Company's net interest income and profitability;
- changes in the cost and scope of insurance from the Federal Deposit Insurance Corporation ("FDIC") and other third parties;
- legislative or regulatory changes, including increased banking and consumer protection regulation that adversely affect the Company's business, both generally and as a result of the Company exceeding \$10 billion in total consolidated assets;
- ability to complete pending or prospective future acquisitions, limit certain sources of revenue, or increase cost of operations;
- costs or difficulties related to the completion and integration of acquisitions;
- the goodwill the Company has recorded in connection with acquisitions could become impaired, which may have an adverse impact on earnings and capital;
- reduced demand for banking products and services;
- the reputation of banks and the financial services industry could deteriorate, which could adversely affect the Company's ability to obtain (and maintain) customers;
- competition among financial institutions in the Company's markets may increase significantly;
- the risks presented by continued public stock market volatility, which could adversely affect the market price of the Company's common stock and the ability to raise additional capital or grow the Company through acquisitions;
- the projected business and profitability of an expansion or the opening of a new branch could be lower than expected;
- consolidation in the financial services industry in the Company's markets resulting in the creation of larger financial institutions who may have greater resources could change the competitive landscape;
- dependence on the Chief Executive Officer ("CEO"), the senior management team and the Presidents of Glacier Bank ("Bank") divisions;
-

material failure, potential interruption or breach in security of the Company's systems and technological changes which could expose us to new risks (e.g., cybersecurity), fraud or system failures;  
natural disasters, including fires, floods, earthquakes, and other unexpected events;  
the Company's success in managing risks involved in the foregoing; and  
the effects of any reputational damage to the Company resulting from any of the foregoing.

Please take into account that forward-looking statements speak only as of the date of this Form 10-Q. 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

Financial Highlights

|                                                          | At or for the Three Months ended |              |              |              | At or for the Nine Months ended |              |   |
|----------------------------------------------------------|----------------------------------|--------------|--------------|--------------|---------------------------------|--------------|---|
| (Dollars in thousands, except per share and market data) | Sep 30, 2018                     | Jun 30, 2018 | Mar 31, 2018 | Sep 30, 2017 | Sep 30, 2018                    | Sep 30, 2017 |   |
| <b>Operating results</b>                                 |                                  |              |              |              |                                 |              |   |
| Net income                                               | \$49,336                         | 44,384       | 38,559       | 36,479       | 132,279                         | 101,421      |   |
| Basic earnings per share                                 | \$0.58                           | 0.53         | 0.48         | 0.47         | 1.59                            | 1.31         |   |
| Diluted earnings per share                               | \$0.58                           | 0.52         | 0.48         | 0.47         | 1.59                            | 1.31         |   |
| Dividends declared per share <sup>1</sup>                | \$0.26                           | 0.26         | 0.23         | 0.51         | 0.75                            | 0.93         |   |
| <b>Market value per share</b>                            |                                  |              |              |              |                                 |              |   |
| Closing                                                  | \$43.09                          | 38.68        | 38.38        | 37.76        | 43.09                           | 37.76        |   |
| High                                                     | \$46.28                          | 41.47        | 41.24        | 37.76        | 46.28                           | 38.03        |   |
| Low                                                      | \$38.37                          | 35.77        | 36.72        | 31.50        | 35.77                           | 31.50        |   |
| <b>Selected ratios and other data</b>                    |                                  |              |              |              |                                 |              |   |
| Number of common stock shares outstanding                | 84,521,093                       | 84,516,650   | 84,511,472   | 78,006,956   | 84,521,093                      | 78,006,956   |   |
| Average outstanding shares - basic                       | 84,518,407                       | 84,514,257   | 80,808,904   | 78,004,450   | 83,294,111                      | 77,379,514   |   |
| Average outstanding shares - diluted                     | 84,593,122                       | 84,559,268   | 80,887,135   | 78,065,942   | 83,362,323                      | 77,442,944   |   |
| Return on average assets (annualized)                    | 1.66                             | % 1.53       | % 1.50       | % 1.46       | % 1.57                          | % 1.40       | % |
| Return on average equity (annualized)                    | 13.10                            | % 12.07      | % 11.90      | % 11.87      | % 12.38                         | % 11.49      | % |
| Efficiency ratio                                         | 52.26                            | % 55.44      | % 57.80      | % 53.44      | % 55.01                         | % 53.92      | % |
| Dividend payout ratio <sup>1</sup>                       | 44.83                            | % 49.06      | % 47.92      | % 108.51     | % 47.17                         | % 70.99      | % |
| Loan to deposit ratio                                    | 85.13                            | % 84.92      | % 81.83      | % 84.43      | % 85.13                         | % 84.43      | % |
| Number of full time equivalent employees                 | 2,572                            | 2,605        | 2,545        | 2,250        | 2,572                           | 2,250        |   |
| Number of locations                                      | 164                              | 167          | 166          | 145          | 164                             | 145          |   |
| Number of ATMs                                           | 215                              | 221          | 223          | 200          | 215                             | 200          |   |

<sup>1</sup> Includes a special dividend declared of \$0.30 per share for the three and nine months ended September 30, 2017.

The Company reported net income of \$49.3 million for the current quarter, an increase of \$12.8 million, or 35 percent, from the \$36.5 million of net income for the prior year third quarter. Diluted earnings per share for the current quarter was \$0.58 per share, an increase of \$0.11, or 23 percent, from the prior year third quarter diluted earnings per share of \$0.47. Included in the current quarter was \$1.3 million of acquisition-related expenses.

Net income for the nine months ended September 30, 2018 was \$132 million, an increase of \$30.9 million, or 30 percent, from the \$101 million of net income for the first nine months of the prior year. Diluted earnings per share for the first nine months of 2018 was \$1.59 per share, an increase of \$0.28, or 21 percent, from the diluted earnings per share of \$1.31 for the same period in the prior year.



## Acquisitions

In February 2018, the Company completed its acquisition of Inter-Mountain Bancorp, Inc. and its wholly-owned subsidiary, First Security Bank, a community bank based in Bozeman, Montana (collectively, “FSB”). In January 2018, the Company completed its acquisition of Columbine Capital Corp., and its wholly-owned subsidiary, Collegiate Peaks Bank, a community bank based in Buena Vista, Colorado (collectively, “Collegiate”). The transactions were accounted for using the acquisition method, and their results of operations have been included in the Company’s consolidated financial statements as of the acquisition dates. For additional information regarding the acquisitions, see Note 12 to the Consolidated Financial Statements in “Part I. Item 1. Financial Statements.” The following table discloses the preliminary fair value estimates of selected classifications of assets and liabilities acquired:

|                               | FSB               | Collegiate       |           |
|-------------------------------|-------------------|------------------|-----------|
| (Dollars in thousands)        | February 28, 2018 | January 31, 2018 | Total     |
| Total assets                  | \$ 1,109,684      | 551,198          | 1,660,882 |
| Debt securities               | 271,865           | 42,177           | 314,042   |
| Loans receivable              | 627,767           | 354,252          | 982,019   |
| Non-interest bearing deposits | 301,468           | 170,022          | 471,490   |
| Interest bearing deposits     | 576,118           | 267,149          | 843,267   |
| Borrowings                    | 36,880            | 12,509           | 49,389    |

## Financial Condition Analysis

## Assets

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

|                                     | Sep 30, 2018  | Jun 30, 2018 | Dec 31, 2017 | Sep 30, 2017 | \$ Change from |              |              |
|-------------------------------------|---------------|--------------|--------------|--------------|----------------|--------------|--------------|
| (Dollars in thousands)              |               |              |              |              | Jun 30, 2018   | Dec 31, 2017 | Sep 30, 2017 |
| Cash and cash equivalents           | \$307,104     | 368,132      | 200,004      | 220,210      | (61,028 )      | 107,100      | 86,894       |
| Debt securities, available-for-sale | 2,103,619     | 2,177,352    | 1,778,243    | 1,886,517    | (73,733 )      | 325,376      | 217,102      |
| Debt securities, held-to-maturity   | 590,915       | 620,409      | 648,313      | 655,128      | (29,494 )      | (57,398 )    | (64,213 )    |
| Total debt securities               | 2,694,534     | 2,797,761    | 2,426,556    | 2,541,645    | (103,227 )     | 267,978      | 152,889      |
| Loans receivable                    |               |              |              |              |                |              |              |
| Residential real estate             | 862,830       | 835,382      | 720,728      | 734,242      | 27,448         | 142,102      | 128,588      |
| Commercial real estate              | 4,527,577     | 4,384,781    | 3,577,139    | 3,503,976    | 142,796        | 950,438      | 1,023,601    |
| Other commercial                    | 1,921,955     | 1,940,435    | 1,579,353    | 1,575,514    | (18,480 )      | 342,602      | 346,441      |
| Home equity                         | 528,404       | 511,043      | 457,918      | 452,291      | 17,361         | 70,486       | 76,113       |
| Other consumer                      | 282,479       | 277,031      | 242,686      | 243,410      | 5,448          | 39,793       | 39,069       |
| Loans receivable                    | 8,123,245     | 7,948,672    | 6,577,824    | 6,509,433    | 174,573        | 1,545,421    | 1,613,812    |
| Allowance for loan and lease losses | (132,535 )    | (131,564 )   | (129,568 )   | (129,576 )   | (971 )         | (2,967 )     | (2,959 )     |
| Loans receivable, net               | 7,990,710     | 7,817,108    | 6,448,256    | 6,379,857    | 173,602        | 1,542,454    | 1,610,853    |
| Other assets                        | 916,754       | 914,643      | 631,533      | 656,890      | 2,111          | 285,221      | 259,864      |
| Total assets                        | \$ 11,909,102 | 11,897,644   | 9,706,349    | 9,798,602    | 11,458         | 2,202,753    | 2,110,500    |

The Company successfully executed its strategy to stay below \$10 billion in total assets as of December 31, 2017 to delay the impact of the Durbin Amendment for one additional year. The Durbin Amendment, which was passed as part of Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), establishes limits on the amount of interchange fees that can be charged to merchants for debit card processing and will reduce the Company’s service charge fee income in the future. As a result, the Company’s annual service charge fee income is expected to decline by approximately \$17 - \$20 million (pre-tax) beginning July 2019. During the year, the Company surpassed \$10 billion in total assets and ended the current quarter at \$11.909 billion, which was an increase of \$2.203 billion, or 23 percent, from the prior year end resulting from current year acquisitions along with organic growth in loans.

Total debt securities of \$2.695 billion at September 30, 2018 decreased \$103 million, or 4 percent, during the current quarter and increased \$153 million, or 6 percent, from the prior year third quarter. Debt securities represented 23 percent of total assets at September 30, 2018 compared to 26 percent of total assets at September 30, 2017.

The loan portfolio of \$8.123 billion increased \$175 million, or 9 percent annualized, during the current quarter. The loan category with the largest increase was commercial real estate loans which increased \$143 million, or 3 percent. Excluding the FSB and Collegiate acquisitions, the loan portfolio increased \$632 million, or 10 percent, since September 30, 2017 and was primarily driven by growth in commercial real estate loans, which increased \$406 million, or 12 percent.

#### Liabilities

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

| (Dollars in thousands)                         | Sep 30,<br>2018 | Jun 30,<br>2018 | Dec 31,<br>2017 | Sep 30,<br>2017 | \$ Change from  |                 |  | Sep 30,<br>2017 |
|------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--|-----------------|
|                                                |                 |                 |                 |                 | Jun 30,<br>2018 | Dec 31,<br>2017 |  |                 |
| Deposits                                       |                 |                 |                 |                 |                 |                 |  |                 |
| Non-interest bearing deposits                  | \$3,103,112     | 2,914,885       | 2,311,902       | 2,355,983       | 188,227         | 791,210         |  | 747,129         |
| NOW and DDA accounts                           | 2,346,050       | 2,354,214       | 1,695,246       | 1,733,353       | (8,164)         | 650,804         |  | 612,697         |
| Savings accounts                               | 1,345,163       | 1,330,637       | 1,082,604       | 1,081,056       | 14,526          | 262,559         |  | 264,107         |
| Money market deposit accounts                  | 1,722,975       | 1,723,681       | 1,512,693       | 1,564,738       | (706)           | 210,282         |  | 158,237         |
| Certificate accounts                           | 932,461         | 927,608         | 817,259         | 846,005         | 4,853           | 115,202         |  | 86,456          |
| Core deposits, total                           | 9,449,761       | 9,251,025       | 7,419,704       | 7,581,135       | 198,736         | 2,030,057       |  | 1,868,626       |
| Wholesale deposits                             | 151,421         | 172,550         | 160,043         | 186,019         | (21,129)        | (8,622)         |  | (34,598)        |
| Deposits, total                                | 9,601,182       | 9,423,575       | 7,579,747       | 7,767,154       | 177,607         | 2,021,435       |  | 1,834,028       |
| Securities sold under agreements to repurchase | 408,754         | 361,515         | 362,573         | 453,596         | 47,239          | 46,181          |  | (44,842)        |
| Federal Home Loan Bank advances                | 155,328         | 395,037         | 353,995         | 153,685         | (239,709)       | (198,667)       |  | 1,643           |
| Other borrowed funds                           | 9,944           | 9,917           | 8,224           | 8,243           | 27              | 1,720           |  | 1,701           |
| Subordinated debentures                        | 134,055         | 134,058         | 126,135         | 126,099         | (3)             | 7,920           |  | 7,956           |
| Other liabilities                              | 107,227         | 99,550          | 76,618          | 83,624          | 7,677           | 30,609          |  | 23,603          |
| Total liabilities                              | \$10,416,490    | 10,423,652      | 8,507,292       | 8,592,401       | (7,162)         | 1,909,198       |  | 1,824,089       |

Core deposits of \$9.450 billion as of September 30, 2018 increased \$199 million, or 2 percent, from the prior quarter. Excluding acquisitions, core deposits increased \$554 million, or 7 percent, from the prior year third quarter. The Company benefited from the increase in non-interest bearing deposits which increased \$188 million, or 6 percent from the prior quarter and organically increased \$276 million, or 12 percent from the prior year third quarter.



Securities sold under agreements to repurchase (“repurchase agreements”) of \$409 million at September 30, 2018 increased \$47.2 million, or 13 percent, over the prior quarter and decreased \$44.8 million, or 10 percent, over prior year third quarter. Federal Home Loan Bank (“FHLB”) advances of \$155 million at September 30, 2018, decreased \$240 million over the prior quarter and remained stable from the prior year third quarter. FHLB advances continue to fluctuate to supplement deposit growth and fund loan growth.

#### Stockholders' Equity

The following table summarizes the stockholders' equity balances as of the dates indicated:

| (Dollars in thousands, except per share data)          | \$ Change from |              |              |              |              |              |              |
|--------------------------------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                                        | Sep 30, 2018   | Jun 30, 2018 | Dec 31, 2017 | Sep 30, 2017 | Jun 30, 2018 | Dec 31, 2017 | Sep 30, 2017 |
| Common equity                                          | \$1,522,329    | 1,494,274    | 1,201,036    | 1,201,534    | 28,055       | 321,293      | 320,795      |
| Accumulated other comprehensive (loss) income          | (29,717 )      | (20,282 )    | (1,979 )     | 4,667        | (9,435 )     | (27,738 )    | (34,384 )    |
| Total stockholders' equity                             | 1,492,612      | 1,473,992    | 1,199,057    | 1,206,201    | 18,620       | 293,555      | 286,411      |
| Goodwill and core deposit intangible, net              | (340,508 )     | (342,243 )   | (191,995 )   | (192,609 )   | 1,735        | (148,513)    | (147,899)    |
| Tangible stockholders' equity                          | \$1,152,104    | 1,131,749    | 1,007,062    | 1,013,592    | 20,355       | 145,042      | 138,512      |
| Stockholders' equity to total assets                   |                | 12.53 %      | 12.39 %      | 12.35 %      | 12.31 %      |              |              |
| Tangible stockholders' equity to total tangible assets |                | 9.96 %       | 9.79 %       | 10.58 %      | 10.55 %      |              |              |
| Book value per common share                            |                | \$17.66      | 17.44        | 15.37        | 15.46        | 0.22         | 2.29         |
| Tangible book value per common share                   |                | \$13.63      | 13.39        | 12.91        | 12.99        | 0.24         | 0.72         |

Tangible stockholders' equity of \$1.152 billion at September 30, 2018 increased \$20 million compared to the prior quarter which was the result of earnings retention. Tangible stockholders' equity increased \$139 million over the prior year third quarter which was the result of earnings retention and \$181 million and \$69.8 million of Company stock issued for the acquisitions of FSB and Collegiate, respectively. These increases more than offset the increase in goodwill and core deposit intangibles associated with the acquisitions and the decrease in accumulated other comprehensive loss. Tangible book value per common share at quarter end increased \$0.24 per share from the prior quarter and increased \$0.64 per share from a year ago.

#### Cash Dividends

On September 26, 2018, the Company's Board of Directors declared a quarterly cash dividend of \$0.26 per share. The dividend was payable October 18, 2018 to shareholders of record on October 9, 2018. The dividend was the 134th consecutive quarterly dividend. Regular quarterly dividends declared for the first nine months of 2018 were \$0.75 per share, an increase of \$0.12 per share, or 19 percent, over the same period last year. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations.

Operating Results for Three Months Ended September 30, 2018  
Compared to June 30, 2018, March 31, 2018 and September 30, 2017

Income Summary

The following table summarizes income for the periods indicated:

| (Dollars in thousands)               | Three Months ended |                 |                 |                 | \$ Change from  |                 |                 |
|--------------------------------------|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                      | Sep 30,<br>2018    | Jun 30,<br>2018 | Mar 31,<br>2018 | Sep 30,<br>2017 | Jun 30,<br>2018 | Mar 31,<br>2018 | Sep 30,<br>2017 |
| Net interest income                  |                    |                 |                 |                 |                 |                 |                 |
| Interest income                      | \$ 122,905         | 117,715         | 103,066         | 96,464          | 5,190           | 19,839          | 26,441          |
| Interest expense                     | 9,160              | 9,161           | 7,774           | 7,652           | (1 )            | 1,386           | 1,508           |
| Total net interest income            | 113,745            | 108,554         | 95,292          | 88,812          | 5,191           | 18,453          | 24,933          |
| Non-interest income                  |                    |                 |                 |                 |                 |                 |                 |
| Service charges and other fees       | 19,504             | 18,804          | 16,871          | 17,307          | 700             | 2,633           | 2,197           |
| Miscellaneous loan fees and charges  | 1,807              | 2,243           | 1,477           | 1,211           | (436 )          | 330             | 596             |
| Gain on sale of loans                | 7,256              | 8,142           | 6,097           | 9,141           | (886 )          | 1,159           | (1,885 )        |
| (Loss) gain on sale of investments   | (367 )             | (56 )           | (333 )          | 77              | (311 )          | (34 )           | (444 )          |
| Other income                         | 4,216              | 2,695           | 1,974           | 3,449           | 1,521           | 2,242           | 767             |
| Total non-interest income            | 32,416             | 31,828          | 26,086          | 31,185          | 588             | 6,330           | 1,231           |
| Total income                         | \$ 146,161         | 140,382         | 121,378         | 119,997         | 5,779           | 24,783          | 26,164          |
| Net interest margin (tax-equivalent) | 4.26               | % 4.17          | % 4.10          | % 4.11          | %               |                 |                 |

Net Interest Income

The current quarter interest income of \$123 million increased \$5.2 million, or 4 percent, from the prior quarter and increased \$26.4 million, or 27 percent, over the prior year third quarter with both increases primarily attributable to the increase in interest income from commercial loans. Interest income on commercial loans increased \$4.8 million, or 6 percent, from the prior quarter and increased \$20.7 million, or 35 percent, from the prior year third quarter.

The current quarter interest expense of \$9.2 million remained stable from the prior quarter and increased \$1.5 million, or 20 percent, from the prior year third quarter. The total cost of funding (including non-interest bearing deposits) for the current quarter was 36 basis points compared to 36 basis points for the prior quarter and 35 basis points for the prior year third quarter.

The Company's net interest margin as a percentage of earning assets, on a tax-equivalent basis, for the current quarter was 4.26 percent compared to 4.17 percent in the prior quarter. The 9 basis points increase in the net interest margin was primarily the result of increased yields on the loan portfolio and a 2 basis points increase in loan discount accretion from the fair value adjustments of recently acquired banks. The current quarter net interest margin increased 15 basis points over the prior year third quarter net interest margin of 4.11 percent. Included in the current quarter margin was a 14 basis points decrease due to the reduction in the federal corporate income tax rate in 2018 by the Tax Cut and Jobs Act ("Tax Act"). The increase in the margin from the prior year third quarter resulted from the remix of earning assets to higher yielding loans, increased yields on the loan portfolio, and stable funding costs.

### Non-interest Income

Non-interest income for the current quarter totaled \$32.4 million, an increase of \$588 thousand, or 2 percent, from the prior quarter and an increase of \$1.2 million, or 4 percent, over the same quarter last year. Service charges and other fees of \$19.5 million for the current quarter, increased \$700 thousand, or 4 percent, from the prior quarter and increased \$2.2 million, or 13 percent, from the prior year third quarter with such increases primarily due to the increased number of accounts from organic growth and acquisitions. Miscellaneous loan fees and charges decreased \$436 thousand, or 19 percent from prior quarter as a result of seasonality and increased \$596 thousand, or 49 percent, from the prior year third quarter as a result of the recent acquisitions and increased loan growth. Gain on sale of loans decreased \$886 thousand, or 11 percent, from the prior quarter as a result of seasonal activity and decreased \$1.9 million, or 21 percent from the prior year third quarter as result of the decrease in purchase and refinance activity. Other income increased \$1.5 million, or 56 percent, from the prior quarter and was primarily due to a \$2.3 million gain on sale of a former branch building. Compared to the prior year third quarter, other income increased \$767 thousand, or 22 percent, due to the sale of the former branch building, which was partially offset by the \$1.3 million decrease in gain on sale of other real estate owned ("OREO").

### Non-interest Expense

The following table summarizes non-interest expense for the periods indicated:

| (Dollars in thousands)                | Three Months ended |              |              | \$ Change from |              |              |              |
|---------------------------------------|--------------------|--------------|--------------|----------------|--------------|--------------|--------------|
|                                       | Sep 30, 2018       | Jun 30, 2018 | Mar 31, 2018 | Sep 30, 2017   | Jun 30, 2018 | Mar 31, 2018 | Sep 30, 2017 |
| Compensation and employee benefits    | \$49,927           | 49,023       | 45,721       | 41,297         | 904          | 4,206        | 8,630        |
| Occupancy and equipment               | 7,914              | 7,662        | 7,274        | 6,500          | 252          | 640          | 1,414        |
| Advertising and promotions            | 2,432              | 2,530        | 2,170        | 2,239          | (98 )        | 262          | 193          |
| Data processing                       | 3,752              | 4,241        | 3,967        | 3,647          | (489 )       | (215 )       | 105          |
| Other real estate owned               | 2,674              | 211          | 72           | 817            | 2,463        | 2,602        | 1,857        |
| Regulatory assessments and insurance  | 1,277              | 1,329        | 1,206        | 1,214          | (52 )        | 71           | 63           |
| Core deposit intangibles amortization | 1,735              | 1,748        | 1,056        | 640            | (13 )        | 679          | 1,095        |
| Other expenses                        | 13,118             | 15,051       | 12,161       | 12,198         | (1,933)      | 957          | 920          |
| Total non-interest expense            | \$82,829           | 81,795       | 73,627       | 68,552         | 1,034        | 9,202        | 14,277       |

Total non-interest expense of \$82.8 million for the current quarter increased \$1.0 million, or 1 percent, over the prior quarter and increased \$14.3 million, or 21 percent, over the prior year third quarter. Compensation and employee benefits increased by \$904 thousand, or 2 percent, from the prior quarter. Compensation and employee benefits increased by \$8.6 million, or 21 percent, from the prior year third quarter principally due to the increased number of employees from acquisitions. Occupancy and equipment expense increased \$1.4 million, or 22 percent, over the prior year third quarter and was attributable to increased costs from acquisitions. OREO expenses increased \$2.5 million from the prior quarter and increased \$1.9 million from the prior year third quarter, due to a write down of \$2.2 million on a single property. Other expenses decreased \$1.9 million, or 13 percent, from the prior quarter and was primarily due to a decrease in acquisition-related expenses. Compared to the prior year third quarter, other expenses increased \$920 thousand, or 8 percent. Acquisition-related expenses were \$1.3 million during the current quarter compared to \$2.9 million in the prior quarter and \$245 thousand in the prior year third quarter.

### Efficiency Ratio

The current quarter efficiency ratio was 52.26 percent, a 318 basis points improvement from the prior quarter efficiency ratio of 55.44 percent. The improvement was the result of increases in net interest income and non-interest income, including the \$2.3 million gain on the sale of the former branch building. In addition, there was a decrease in acquisition-related expenses and the Company continues to control its operating costs.

### Provision for Loan Losses

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

| (Dollars in thousands) | Provision<br>for Loan<br>Losses | Net<br>Charge-Offs | Allowance<br>for Loan<br>and Lease<br>Losses<br>as a Percent<br>of Loans |   | Accruing<br>Loans 30-89<br>Days Past Due<br>as a Percent of<br>Loans |   | Non-Performing<br>Assets to<br>Total Sub-sidiary<br>Assets |   |
|------------------------|---------------------------------|--------------------|--------------------------------------------------------------------------|---|----------------------------------------------------------------------|---|------------------------------------------------------------|---|
| Third quarter 2018     | \$ 3,194                        | \$ 2,223           | 1.63                                                                     | % | 0.31                                                                 | % | 0.61                                                       | % |
| Second quarter 2018    | 4,718                           | 762                | 1.66                                                                     | % | 0.50                                                                 | % | 0.71                                                       | % |
| First quarter 2018     | 795                             | 2,755              | 1.66                                                                     | % | 0.59                                                                 | % | 0.64                                                       | % |
| Fourth quarter 2017    | 2,886                           | 2,894              | 1.97                                                                     | % | 0.57                                                                 | % | 0.68                                                       | % |
| Third quarter 2017     | 3,327                           | 3,628              | 1.99                                                                     | % | 0.45                                                                 | % | 0.67                                                       | % |
| Second quarter 2017    | 3,013                           | 2,362              | 2.05                                                                     | % | 0.49                                                                 | % | 0.70                                                       | % |
| First quarter 2017     | 1,598                           | 1,944              | 2.20                                                                     | % | 0.67                                                                 | % | 0.75                                                       | % |
| Fourth quarter 2016    | 1,139                           | 4,101              | 2.28                                                                     | % | 0.45                                                                 | % | 0.76                                                       | % |

Net charge-offs for the current quarter were \$2.2 million compared to \$762 thousand for the prior quarter and \$3.6 million from the same quarter last year. Current quarter provision for loan losses was \$3.2 million, compared to \$4.7 million in the prior quarter and \$3.3 million in the prior year third quarter. Loan portfolio growth, composition, average loan size, credit quality considerations, and other environmental factors will continue to determine the level of the loan loss provision.

The determination of the allowance for loan and lease losses (“ALLL” or “allowance”) and the related provision for loan losses is a critical accounting estimate that involves management’s judgments about current environmental factors which affect loan losses, such factors including economic conditions, changes in collateral values, net charge-offs, and other factors discussed below in “Additional Management’s Discussion and Analysis.”

Operating Results For Nine Months ended September 30, 2018  
Compared to September 30, 2017

Income Summary

The following table summarizes income for the periods indicated:

| (Dollars in thousands)               | Nine Months ended  |                    |           |          |   |
|--------------------------------------|--------------------|--------------------|-----------|----------|---|
|                                      | September 30, 2018 | September 30, 2017 | \$ Change | % Change |   |
| Net interest income                  |                    |                    |           |          |   |
| Interest income                      | \$343,686          | \$278,124          | \$65,562  | 24       | % |
| Interest expense                     | 26,095             | 22,792             | 3,303     | 14       | % |
| Total net interest income            | 317,591            | 255,332            | 62,259    | 24       | % |
| Non-interest income                  |                    |                    |           |          |   |
| Service charges and other fees       | 55,179             | 50,435             | 4,744     | 9        | % |
| Miscellaneous loan fees and charges  | 5,527              | 3,283              | 2,244     | 68       | % |
| Gain on sale of loans                | 21,495             | 23,031             | (1,536)   | (7)      | % |
| Loss on sale of investments          | (756)              | (545)              | (211)     | 39       | % |
| Other income                         | 8,885              | 8,326              | 559       | 7        | % |
| Total non-interest income            | 90,330             | 84,530             | 5,800     | 7        | % |
| Total income                         | \$407,921          | \$339,862          | \$68,059  | 20       | % |
| Net interest margin (tax-equivalent) | 4.18               | % 4.09             | %         |          |   |

Net Interest Income

Interest income for the first nine months of 2018 increased \$65.6 million, or 24 percent, from the first nine months of 2017 and was principally due to a \$55.9 million increase in interest income from commercial loans. Interest expense of \$26.1 million for the first nine months of 2018 increased \$3.3 million over the prior year same period. Interest expense on repurchase agreements, FHLB advances, and subordinated debt increased \$3.4 million, or 37 percent, over the prior year and was primarily driven by the increase in market interest rates. The Company has maintained stable funding costs through its focus on growing non-interest bearing deposits and continued pricing discipline. The total funding cost was 36 basis points for the first nine months of 2018 and 2017.

The net interest margin as a percentage of earning assets, on a tax-equivalent basis, for the first nine months of 2018 was 4.18 percent, a 9 basis points increase from the net interest margin of 4.09 percent for the first nine months of 2017. Included in the current year margin was a 14 basis points decrease compared to the prior year driven by the reduction in the federal corporate income tax rate. The increase in the margin from the prior year resulted from the remix of earning assets to higher yielding loans, increased yields on the loan portfolio, and stable funding costs.

Non-interest Income

Non-interest income of \$90.3 million for the first nine months of 2018 increased \$5.8 million, or 7 percent, over the same period last year. Service charges and other fees of \$55.2 million for 2018 increased \$4.7 million, or 9 percent, from the prior year as a result of an increased number of deposit accounts from organic growth and acquisitions. Miscellaneous loan fees and charges for the first nine months of 2018 increased \$2.2 million, or 68 percent from the prior year as a result of the recent acquisitions and increased loan growth. Gain on sale of loans decreased \$1.5 million, or 7 percent, from the prior year first nine months due to the decrease purchase and refinance activity. Other income of \$8.9 million, increased \$559 thousand, or 7 percent, from the prior year first nine months with increases of \$1.9 million from the sale of bank assets and a decrease of \$2.5 million from the gain on sale of OREO.



## Non-interest Expense

The following table summarizes non-interest expense for the periods indicated:

| (Dollars in thousands)               | Nine Months ended  |                    | \$<br>Change | % Change |   |
|--------------------------------------|--------------------|--------------------|--------------|----------|---|
|                                      | September 30, 2018 | September 30, 2017 |              |          |   |
| Compensation and employee benefits   | \$ 144,671         | \$ 120,041         | \$ 24,630    | 21       | % |
| Occupancy and equipment              | 22,850             | 19,706             | 3,144        | 16       | % |
| Advertising and promotions           | 7,132              | 6,381              | 751          | 12       | % |
| Data processing                      | 11,960             | 10,180             | 1,780        | 17       | % |
| Other real estate owned              | 2,957              | 1,532              | 1,425        | 93       | % |
| Regulatory assessments and insurance | 3,812              | 3,362              | 450          | 13       | % |
| Core deposit intangible amortization | 4,539              | 1,880              | 2,659        | 141      | % |
| Other expenses                       | 40,330             | 34,123             | 6,207        | 18       | % |
| Total non-interest expense           | \$ 238,251         | \$ 197,205         | \$ 41,046    | 21       | % |

Total non-interest expense of \$238.3 million for the first nine months of 2018 increased \$41.0 million, or 21 percent, over prior year same period. Compensation and employee benefits for the first nine months of 2018 increased \$24.6 million, or 21 percent, from the same period last year due to the increased number of employees from acquisitions. Occupancy and equipment expense for the first nine months of 2018 increased \$3.1 million, or 16 percent from the prior year as a result of increased costs from acquisitions. Data processing expense for the current year increased \$1.8 million, or 17 percent, from the prior year as a result of increased costs from the acquisitions and organic growth. Current year other expenses of \$40.3 million increased \$6.2 million, or 18 percent, from the prior year due to an increase in acquisition-related expenses. Acquisition-related expenses were \$6.1 million during the first nine months of 2018 compared to \$1.2 million in the prior year first nine months.

## Efficiency Ratio

The efficiency ratio of 55.01 percent for the first nine months of 2018 increased 109 basis points from the prior year first nine months efficiency ratio of 53.92. The increase included 140 basis points related to the decrease in the federal income tax rate and a 117 basis points increase in acquisition-related expenses.

## Provision for Loan Losses

The provision for loan losses was \$8.7 million for the first nine months of 2018, an increase of \$769 thousand from the same period in the prior year. Net charge-offs during the first nine months of 2018 were \$5.7 million compared to \$7.9 million during the same period in 2017.

## ADDITIONAL MANAGEMENT'S DISCUSSION AND ANALYSIS

## Investment Activity

The Company's investment securities primarily consist of debt securities classified as available-for-sale or held-to-maturity. Non-marketable equity securities primarily consist of capital stock issued by the FHLB of Des Moines and are carried at cost less impairment.

## Debt Securities

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

| (Dollars in thousands)                 | September 30, 2018 |         |   | December 31, 2017 |         |   | September 30, 2017 |         |   |
|----------------------------------------|--------------------|---------|---|-------------------|---------|---|--------------------|---------|---|
|                                        | Carrying Amount    | Percent |   | Carrying Amount   | Percent |   | Carrying Amount    | Percent |   |
| Available-for-sale                     |                    |         |   |                   |         |   |                    |         |   |
| U.S. government and federal agency     | \$25,267           | 1       | % | \$31,127          | 1       | % | \$34,046           | 1       | % |
| U.S. government sponsored enterprises  | 118,550            | 4       | % | 19,091            | 1       | % | 19,267             | 1       | % |
| State and local governments            | 644,014            | 24      | % | 629,501           | 26      | % | 641,973            | 25      | % |
| Corporate bonds                        | 305,225            | 11      | % | 216,762           | 9       | % | 249,990            | 10      | % |
| Residential mortgage-backed securities | 826,164            | 31      | % | 779,283           | 32      | % | 838,929            | 33      | % |
| Commercial mortgage-backed securities  | 184,399            | 7       | % | 102,479           | 4       | % | 102,312            | 4       | % |
| Total available-for-sale               | 2,103,619          | 78      | % | 1,778,243         | 73      | % | 1,886,517          | 74      | % |
| Held-to-maturity                       |                    |         |   |                   |         |   |                    |         |   |
| State and local governments            | 590,915            | 22      | % | 648,313           | 27      | % | 655,128            | 26      | % |
| Total held-to-maturity                 | 590,915            | 22      | % | 648,313           | 27      | % | 655,128            | 26      | % |
| Total debt securities                  | \$2,694,534        | 100     | % | \$2,426,556       | 100     | % | \$2,541,645        | 100     | % |

The Company's debt securities are primarily comprised of state and local government securities and mortgage-backed securities. State and local government securities are largely exempt from federal income tax and the Company's federal statutory rate is used in calculating the tax-equivalent yields on the tax-exempt securities. As a result of the Tax Act, the federal statutory rate decreased from 35 percent in 2017 to 21 percent beginning in 2018. Mortgage-backed securities are primarily short, weighted-average life U.S. agency guaranteed residential mortgage pass-through securities. To a lesser extent, mortgage-backed securities also consist of short, weighted-average life U.S. agency guaranteed residential collateralized mortgage obligations and U.S. agency guaranteed commercial mortgage-backed securities. Combined, the mortgage-backed securities provide the Company with ongoing liquidity as scheduled and pre-paid principal is received on the securities.

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



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

| (Dollars in thousands)                           | September 30, 2018 |           | December 31, 2017 |           |
|--------------------------------------------------|--------------------|-----------|-------------------|-----------|
|                                                  | Amortized          | Fair      | Amortized         | Fair      |
|                                                  | Cost               | Value     | Cost              | Value     |
| S&P: AAA / Moody's: Aaa                          | \$359,662          | 353,705   | 310,040           | 311,759   |
| S&P: AA+, AA, AA- / Moody's: Aa1, Aa2, Aa3       | 682,356            | 675,334   | 767,306           | 783,795   |
| S&P: A+, A, A- / Moody's: A1, A2, A3             | 158,945            | 162,211   | 167,230           | 175,539   |
| S&P: BBB+, BBB, BBB- / Moody's: Baa1, Baa2, Baa3 | 8,740              | 8,921     | 2,271             | 2,372     |
| Not rated by either entity                       | 28,070             | 26,349    | 14,985            | 15,262    |
| Below investment grade                           | 1,050              | 1,051     | 847               | 860       |
| Total                                            | \$1,238,823        | 1,227,571 | 1,262,679         | 1,289,587 |

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

| (Dollars in thousands)         | September 30, 2018 |           | December 31, 2017 |           |
|--------------------------------|--------------------|-----------|-------------------|-----------|
|                                | Amortized          | Fair      | Amortized         | Fair      |
|                                | Cost               | Value     | Cost              | Value     |
| General obligation - unlimited | \$679,273          | 674,136   | 717,610           | 735,218   |
| General obligation - limited   | 184,222            | 186,299   | 195,278           | 203,643   |
| Revenue                        | 351,976            | 344,064   | 322,394           | 323,183   |
| Certificate of participation   | 15,463             | 15,663    | 19,366            | 19,922    |
| Other                          | 7,889              | 7,409     | 8,031             | 7,621     |
| Total                          | \$1,238,823        | 1,227,571 | 1,262,679         | 1,289,587 |

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

| (Dollars in thousands) | September 30, 2018 |           | December 31, 2017 |           |
|------------------------|--------------------|-----------|-------------------|-----------|
|                        | Amortized          | Fair      | Amortized         | Fair      |
|                        | Cost               | Value     | Cost              | Value     |
| Washington             | \$187,202          | 185,590   | 184,491           | 189,932   |
| Texas                  | 160,844            | 159,714   | 170,786           | 175,217   |
| Michigan               | 145,748            | 147,126   | 157,240           | 163,332   |
| Montana                | 109,280            | 110,061   | 92,733            | 97,234    |
| Ohio                   | 62,434             | 62,111    | 65,207            | 66,840    |
| All other states       | 573,315            | 562,969   | 592,222           | 597,032   |
| Total                  | \$1,238,823        | 1,227,571 | 1,262,679         | 1,289,587 |

The following table presents the carrying amount and weighted-average yield of available-for-sale and held-to-maturity debt securities by contractual maturity at September 30, 2018. Weighted-average yields are based upon the amortized cost of securities and are calculated using the interest method which takes into consideration premium amortization, discount accretion and mortgage-backed securities' prepayment provisions. Weighted-average yields on tax-exempt debt securities exclude the federal income tax benefit.

|                                        | One Year or Less |        | After One through Five Years |        | After Five through Ten Years |        | After Ten Years |        | Mortgage-Backed Securities |        | Total       |        |
|----------------------------------------|------------------|--------|------------------------------|--------|------------------------------|--------|-----------------|--------|----------------------------|--------|-------------|--------|
| (Dollars in thousands)                 | Amount           | Yield  | Amount                       | Yield  | Amount                       | Yield  | Amount          | Yield  | Amount                     | Yield  | Amount      | Yield  |
| Available-for-sale                     |                  |        |                              |        |                              |        |                 |        |                            |        |             |        |
| U.S. government and federal agency     | \$—              | — %    | \$2,666                      | 2.60 % | \$10,919                     | 2.22 % | \$11,682        | 1.66 % | \$—                        | — %    | \$25,267    | 1.66 % |
| U.S. government sponsored enterprises  | —                | — %    | 111,103                      | 2.54 % | 7,447                        | 6.06 % | —               | — %    | —                          | — %    | 118,550     | 2.54 % |
| State and local governments            | 10,727           | 1.87 % | 40,773                       | 2.44 % | 266,913                      | 3.63 % | 325,601         | 4.04 % | —                          | — %    | 644,014     | 3.63 % |
| Corporate bonds                        | 139,931          | 2.36 % | 165,294                      | 3.05 % | —                            | — %    | —               | — %    | —                          | — %    | 305,225     | 2.36 % |
| Residential mortgage-backed securities | —                | — %    | —                            | — %    | —                            | — %    | —               | — %    | 826,164                    | 2.30 % | 826,164     | 2.30 % |
| Commercial mortgage-backed securities  | —                | — %    | —                            | — %    | —                            | — %    | —               | — %    | 184,399                    | 2.63 % | 184,399     | 2.63 % |
| Total available-for-sale               | 150,658          | 2.32 % | 319,836                      | 2.79 % | 285,279                      | 3.56 % | 337,283         | 3.96 % | 1,010,563                  | 2.36 % | 2,103,619   | 2.36 % |
| Held-to-maturity                       |                  |        |                              |        |                              |        |                 |        |                            |        |             |        |
| State and local governments            | —                | — %    | 4,551                        | 2.43 % | 108,553                      | 3.13 % | 477,811         | 4.08 % | —                          | — %    | 590,915     | 3.13 % |
| Total held-to-maturity                 | —                | — %    | 4,551                        | 2.43 % | 108,553                      | 3.13 % | 477,811         | 4.08 % | —                          | — %    | 590,915     | 3.13 % |
| Total debt securities                  | \$150,658        | 2.32 % | \$324,387                    | 2.79 % | \$393,832                    | 3.44 % | \$815,094       | 4.03 % | \$1,010,563                | 2.36 % | \$2,694,534 | 3.44 % |

For additional information on debt securities, see Note 2 to the Consolidated Financial Statements in “Part I. Item 1. Financial Statements.”

#### Other-Than-Temporary Impairment on Securities Analysis

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

Corporation (“Freddie Mac”) and other U.S. government agencies linked to the long-term U.S. debt.

The following table separates debt securities with an unrealized loss position at September 30, 2018 into two categories: securities purchased prior to 2018 and those purchased during 2018. Of those securities purchased prior to 2018, the fair market value and unrealized gain or loss at December 31, 2017 is also presented.

| (Dollars in thousands)                                  | September 30, 2018 |                 |                       | December 31, 2017 |                 |                       |
|---------------------------------------------------------|--------------------|-----------------|-----------------------|-------------------|-----------------|-----------------------|
|                                                         | Fair Value         | Unrealized Loss | Percent of Fair Value | Fair Value        | Unrealized Loss | Percent of Fair Value |
| Temporarily impaired securities purchased prior to 2018 |                    |                 |                       |                   |                 |                       |
| U.S. government and federal agency                      | \$15,440           | \$(160)         | (1)%                  | \$18,721          | \$(104)         | (1)%                  |
| U.S. government sponsored enterprises                   | 18,841             | (407)           | (2)%                  | 19,092            | (104)           | (1)%                  |
| State and local governments                             | 587,423            | (27,580)        | (5)%                  | 612,490           | (6,041)         | (1)%                  |
| Corporate bonds                                         | 137,092            | (958)           | (1)%                  | 139,257           | (410)           | —%                    |
| Residential mortgage-backed securities                  | 598,593            | (25,709)        | (4)%                  | 743,549           | (7,197)         | (1)%                  |
| Commercial mortgage-backed securities                   | 79,525             | (2,905)         | (4)%                  | 101,348           | (1,808)         | (2)%                  |
| Total                                                   | \$1,436,914        | \$(57,719)      | (4)%                  | \$1,634,457       | \$(15,664)      | (1)%                  |
| Temporarily impaired securities purchased during 2018   |                    |                 |                       |                   |                 |                       |
| U.S. government sponsored enterprises                   | \$99,709           | \$(1,541)       | (2)%                  |                   |                 |                       |
| State and local governments                             | 65,871             | (1,194)         | (2)%                  |                   |                 |                       |
| Corporate bonds                                         | 97,078             | (570)           | (1)%                  |                   |                 |                       |
| Residential mortgage-backed securities                  | 201,707            | (3,493)         | (2)%                  |                   |                 |                       |
| Commercial mortgage-backed securities                   | 98,852             | (969)           | (1)%                  |                   |                 |                       |
| Total                                                   | \$563,217          | \$(7,767)       | (1)%                  |                   |                 |                       |
| Temporarily impaired securities                         |                    |                 |                       |                   |                 |                       |
| U.S. government and federal agency                      | \$15,440           | \$(160)         | (1)%                  |                   |                 |                       |
| U.S. government sponsored enterprises                   | 118,550            | (1,948)         | (2)%                  |                   |                 |                       |
| State and local governments                             | 653,294            | (28,774)        | (4)%                  |                   |                 |                       |
| Corporate bonds                                         | 234,170            | (1,528)         | (1)%                  |                   |                 |                       |
| Residential mortgage-backed securities                  | 800,300            | (29,202)        | (4)%                  |                   |                 |                       |
| Commercial mortgage-backed securities                   | 178,377            | (3,874)         | (2)%                  |                   |                 |                       |
| Total                                                   | \$2,000,131        | \$(65,486)      | (3)%                  |                   |                 |                       |

With respect to severity, the following table provides the number of debt securities and amount of unrealized loss in the various ranges of unrealized loss as a percent of book value at September 30, 2018:

| (Dollars in thousands) | Number of<br>Debt<br>Securities | Unrealized<br>Loss |
|------------------------|---------------------------------|--------------------|
| Greater than 10.0%     | 27                              | \$ (7,235 )        |
| 5.1% to 10.0%          | 176                             | (18,902 )          |
| 0.1% to 5.0%           | 1,035                           | (39,349 )          |
| Total                  | 1,238                           | \$ (65,486 )       |

With respect to the valuation history of the impaired debt securities, the Company identified 408 securities which have been continuously impaired for the twelve months ending September 30, 2018. The valuation history of such securities in the prior year(s) was also reviewed to determine the number of months in the prior year(s) in which the identified securities were in an unrealized loss position.

The following table provides details of the 408 debt securities which have been continuously impaired for the twelve months ended September 30, 2018, including the most notable loss for any one bond in each category.

| (Dollars in thousands)                 | Number of<br>Debt<br>Securities | Unrealized<br>Loss for<br>12 Months<br>Or More | Most<br>Notable<br>Loss |
|----------------------------------------|---------------------------------|------------------------------------------------|-------------------------|
| U.S. government and federal agency     | 12                              | \$ (132 )                                      | \$ (26 )                |
| U.S. government sponsored enterprises  | 2                               | (157 )                                         | (110 )                  |
| State and local governments            | 218                             | (17,581 )                                      | (1,500)                 |
| Corporate bonds                        | 18                              | (708 )                                         | (109 )                  |
| Residential mortgage-backed securities | 135                             | (22,805 )                                      | (1,040)                 |
| Commercial mortgage-backed securities  | 23                              | (2,634 )                                       | (424 )                  |
| Total                                  | 408                             | \$ (44,017 )                                   |                         |

Based on the Company's analysis of its impaired debt securities as of September 30, 2018, the Company determined that none of such securities had other-than-temporary impairment and the unrealized losses were primarily the result of interest rate changes and market spreads subsequent to acquisition. A substantial portion of the debt securities with unrealized losses at September 30, 2018 were issued by Fannie Mae, Freddie Mac, Government National Mortgage Association ("Ginnie Mae") and other agencies of the U.S. government or have credit ratings issued by one or more of the NRSRO entities in the four highest credit rating categories. All of the Company's impaired debt securities at September 30, 2018 have been determined by the Company to be investment grade.

Non-marketable equity securities. Non-marketable equity securities are evaluated for impairment whenever events or circumstances suggest the carrying value may not be recoverable. Based on the Company's evaluation of its investments in non-marketable equity securities as of September 30, 2018, the Company determined that none of such securities had other-than-temporary impairment.

### Lending Activity

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

|                               | September 30, 2018 |         |   | December 31, 2017 |         |   | September 30, 2017 |         |   |
|-------------------------------|--------------------|---------|---|-------------------|---------|---|--------------------|---------|---|
| (Dollars in thousands)        | Amount             | Percent |   | Amount            | Percent |   | Amount             | Percent |   |
| Residential real estate loans | \$862,830          | 11      | % | \$720,728         | 11      | % | \$734,242          | 11      | % |
| Commercial loans              |                    |         |   |                   |         |   |                    |         |   |
| Real estate                   | 4,527,577          | 57      | % | 3,577,139         | 55      | % | 3,503,976          | 55      | % |
| Other commercial              | 1,921,955          | 24      | % | 1,579,353         | 25      | % | 1,575,514          | 25      | % |
| Total                         | 6,449,532          | 81      | % | 5,156,492         | 80      | % | 5,079,490          | 80      | % |
| Consumer and other loans      |                    |         |   |                   |         |   |                    |         |   |
| Home equity                   | 528,404            | 7       | % | 457,918           | 7       | % | 452,291            | 7       | % |
| Other consumer                | 282,479            | 3       | % | 242,686           | 4       | % | 243,410            | 4       | % |
| Total                         | 810,883            | 10      | % | 700,604           | 11      | % | 695,701            | 11      | % |
| Loans receivable              | 8,123,245          | 102     | % | 6,577,824         | 102     | % | 6,509,433          | 102     | % |
| ALLL                          | (132,535)          | (2)     | % | (129,568)         | (2)     | % | (129,576)          | (2)     | % |
| Loans receivable, net         | \$7,990,710        | 100     | % | \$6,448,256       | 100     | % | \$6,379,857        | 100     | % |

## Non-performing Assets

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

|                                                              | At or for the<br>Nine Months<br>ended | At or for<br>the Six<br>Months<br>ended | At or for the<br>Year ended | At or for the<br>Nine Months<br>ended |
|--------------------------------------------------------------|---------------------------------------|-----------------------------------------|-----------------------------|---------------------------------------|
| (Dollars in thousands)                                       | September 30,<br>2018                 | June 30,<br>2018                        | December 31,<br>2017        | September 30,<br>2017                 |
| Other real estate owned                                      | \$ 12,399                             | 13,616                                  | 14,269                      | 14,359                                |
| Accruing loans 90 days or more past due                      |                                       |                                         |                             |                                       |
| Residential real estate                                      | 2,063                                 | 1,050                                   | 2,366                       | 420                                   |
| Commercial                                                   | 1,927                                 | 11,200                                  | 3,582                       | 3,261                                 |
| Consumer and other                                           | 343                                   | 501                                     | 129                         | 263                                   |
| Total                                                        | 4,333                                 | 12,751                                  | 6,077                       | 3,944                                 |
| Non-accrual loans                                            |                                       |                                         |                             |                                       |
| Residential real estate                                      | 7,855                                 | 6,851                                   | 4,924                       | 5,321                                 |
| Commercial                                                   | 44,100                                | 48,138                                  | 35,629                      | 36,464                                |
| Consumer and other                                           | 3,418                                 | 3,181                                   | 4,280                       | 4,985                                 |
| Total                                                        | 55,373                                | 58,170                                  | 44,833                      | 46,770                                |
| Total non-performing assets                                  | \$ 72,105                             | 84,537                                  | 65,179                      | 65,073                                |
| Non-performing assets as a percentage of subsidiary assets   | 0.61                                  | % 0.71                                  | % 0.68                      | % 0.67                                |
| ALLL as a percentage of non-performing loans                 | 222                                   | % 186                                   | % 255                       | % 256                                 |
| Accruing loans 30-89 days past due                           | \$ 25,181                             | 39,650                                  | 37,687                      | 29,115                                |
| Accruing troubled debt restructurings                        | \$ 35,080                             | 34,991                                  | 38,491                      | 31,093                                |
| Non-accrual troubled debt restructurings                     | \$ 12,911                             | 18,380                                  | 23,709                      | 22,134                                |
| U.S. government guarantees included in non-performing assets | \$ 5,791                              | 7,265                                   | 2,513                       | 1,913                                 |
| Interest income <sup>1</sup>                                 | \$ 2,042                              | 1,409                                   | 2,162                       | 1,679                                 |

<sup>1</sup> Amounts represent estimated interest income that would have been recognized on loans accounted for on a non-accrual basis as of the end of each period had such loans performed pursuant to contractual terms.

Non-performing assets at September 30, 2018 were \$72.1 million, a decrease of \$12.4 million, or 15 percent, from the prior quarter and an increase of \$7.0 million, or 11 percent, from the prior year third quarter. Non-performing assets as a percentage of subsidiary assets at September 30, 2018 was 0.61 percent, a decrease of 10 basis points from the prior quarter, and a decrease of 6 basis points from the prior year third quarter. Early stage delinquencies (accruing loans 30-89 days past due) of \$25.2 million at September 30, 2018 decreased \$14.5 million from the prior quarter and decreased \$3.9 million from the prior year third quarter. Early stage delinquencies as a percentage of loans at September 30, 2018 was 0.31 percent which was a decrease of 19 basis points from the prior quarter and a 14 basis point decrease from prior year third quarter.

Most of the Company's non-performing assets are secured by real estate, and based on the most current information available to management, including updated appraisals or evaluations (new or updated), the Company believes the value of the underlying real estate collateral is adequate to minimize significant charge-offs or losses to the Company. The Company evaluates the level of its non-performing loans, the values of the underlying real estate and other collateral, and related trends in internal and external environmental factors and net charge-offs in determining the adequacy of the ALLL. Through pro-active credit administration, the Company works closely with its borrowers to seek favorable resolution to the extent possible, thereby attempting to minimize net charge-offs or losses to the Company. With very limited exceptions, the Company does not disburse additional funds on non-performing loans. Instead, the Company proceeds to collection and foreclosure actions in order to reduce the Company's exposure to loss on such loans.

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

#### Impaired Loans

Loans are designated impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement and therefore, the Company has serious doubts as to the ability of such borrowers to fulfill the contractual obligation. Impaired loans include non-performing loans (i.e., non-accrual loans and accruing loans ninety days or more past due) and accruing loans under ninety days past due where it is probable payments will not be received according to the loan agreement (e.g., troubled debt restructuring). Impaired loans were \$124 million and \$120 million as of September 30, 2018 and December 31, 2017, respectively. The ALLL includes specific valuation allowances of \$1.7 million and \$5.2 million of impaired loans as of September 30, 2018 and December 31, 2017, respectively.

#### 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. Each restructured debt is separately negotiated with the borrower and includes terms and conditions that reflect the borrower's prospective ability to service the debt as modified. The Company discourages the use of the multiple loan strategy when restructuring loans regardless of whether or not the loans are designated as TDRs. The Company's TDR loans of \$48.0 million and \$62.2 million as of September 30, 2018 and December 31, 2017, respectively, are considered impaired loans.

#### Other Real Estate Owned

The book value of loans prior to the acquisition of collateral and transfer of the loans into OREO during 2018 was \$5.8 million. The fair value of the loan collateral acquired in foreclosure during 2018 was \$4.1 million. The following table sets forth the changes in OREO for the periods indicated:

|                                | At or for the<br>Nine Months<br>ended | At or<br>for the<br>Six<br>Months<br>ended | At or for the<br>Year ended | At or for the<br>Nine Months<br>ended |
|--------------------------------|---------------------------------------|--------------------------------------------|-----------------------------|---------------------------------------|
| (Dollars in thousands)         | September 30,<br>2018                 | June 30,<br>2018                           | December 31,<br>2017        | September 30,<br>2017                 |
| Balance at beginning of period | \$ 14,269                             | 14,269                                     | 20,954                      | 20,954                                |
| Acquisitions                   | 187                                   | 187                                        | 96                          | 96                                    |

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|                          |           |          |           |           |
|--------------------------|-----------|----------|-----------|-----------|
| Additions                | 4,066     | 1,144    | 4,466     | 3,844     |
| Write-downs              | (2,541    | ) (56    | ) (604    | ) (443    |
| Sales                    | (3,582    | ) (1,928 | ) (10,643 | ) (10,092 |
| Balance at end of period | \$ 12,399 | 13,616   | 14,269    | 14,359    |

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#### 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, trends and changes in collateral values, delinquencies, non-performing assets, net charge-offs and credit-related policies and personnel. 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. In addition, the policy and procedures for determining the balance of the ALLL are reviewed annually by the Company's Board, 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 historical loss experience, adjusted for changes in trends and conditions of qualitative or environmental factors.

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 allowance and reviews and approves the overall ALLL. 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 loans collectively evaluated for impairment 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 includes fourteen bank divisions with separate management teams providing 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 this slowly improving, but fragile economic recovery and 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.

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:

| (Dollars in thousands)  | September 30, 2018 |                             |                              |           | December 31, 2017           |                              |           |                             | September 30, 2017 |                             |                              |      |
|-------------------------|--------------------|-----------------------------|------------------------------|-----------|-----------------------------|------------------------------|-----------|-----------------------------|--------------------|-----------------------------|------------------------------|------|
|                         | ALLL               | Percent of ALLL in Category | Percent of Loans in Category | ALLL      | Percent of ALLL in Category | Percent of Loans in Category | ALLL      | Percent of ALLL in Category | ALLL               | Percent of ALLL in Category | Percent of Loans in Category | ALLL |
| Residential real estate | \$10,754           | 8 %                         | 11 %                         | \$10,798  | 8 %                         | 11 %                         | \$11,480  | 9 %                         | 11 %               |                             |                              |      |
| Commercial real estate  | 73,566             | 56 %                        | 56 %                         | 68,515    | 53 %                        | 54 %                         | 68,225    | 53 %                        | 54 %               |                             |                              |      |
| Other commercial        | 37,957             | 29 %                        | 24 %                         | 39,303    | 30 %                        | 24 %                         | 37,820    | 29 %                        | 24 %               |                             |                              |      |
| Home equity             | 5,928              | 4 %                         | 6 %                          | 6,204     | 5 %                         | 7 %                          | 6,981     | 5 %                         | 7 %                |                             |                              |      |
| Other consumer          | 4,330              | 3 %                         | 3 %                          | 4,748     | 4 %                         | 4 %                          | 5,070     | 4 %                         | 4 %                |                             |                              |      |
| Total                   | \$132,535          | 100 %                       | 100 %                        | \$129,568 | 100 %                       | 100 %                        | \$129,576 | 100 %                       | 100 %              |                             |                              |      |

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

| (Dollars in thousands)                         | At or for the<br>Nine Months<br>ended | At or for<br>the Six<br>Months<br>ended | At or for the<br>Year ended | At or for the<br>Nine Months<br>ended |
|------------------------------------------------|---------------------------------------|-----------------------------------------|-----------------------------|---------------------------------------|
|                                                | September 30,<br>2018                 | June 30,<br>2018                        | December 31,<br>2017        | September 30,<br>2017                 |
| Balance at beginning of period                 | \$ 129,568                            | 129,568                                 | 129,572                     | 129,572                               |
| Provision for loan losses                      | 8,707                                 | 5,513                                   | 10,824                      | 7,938                                 |
| Charge-offs                                    |                                       |                                         |                             |                                       |
| Residential real estate                        | (257 )                                | (47 )                                   | (199 )                      | (87 )                                 |
| Commercial loans                               | (5,457 )                              | (3,651 )                                | (9,044 )                    | (7,116 )                              |
| Consumer and other loans                       | (6,191 )                              | (3,913 )                                | (10,088 )                   | (7,598 )                              |
| Total charge-offs                              | (11,905 )                             | (7,611 )                                | (19,331 )                   | (14,801 )                             |
| Recoveries                                     |                                       |                                         |                             |                                       |
| Residential real estate                        | 78                                    | 71                                      | 82                          | 77                                    |
| Commercial loans                               | 2,806                                 | 2,051                                   | 3,569                       | 2,611                                 |
| Consumer and other loans                       | 3,281                                 | 1,972                                   | 4,852                       | 4,179                                 |
| Total recoveries                               | 6,165                                 | 4,094                                   | 8,503                       | 6,867                                 |
| Net charge-offs                                | (5,740 )                              | (3,517 )                                | (10,828 )                   | (7,934 )                              |
| Balance at end of period                       | \$ 132,535                            | 131,564                                 | 129,568                     | 129,576                               |
| ALLL as a percentage of total loans            | 1.63 %                                | 1.66 %                                  | 1.97 %                      | 1.99 %                                |
| Net charge-offs as a percentage of total loans | 0.07 %                                | 0.04 %                                  | 0.17 %                      | 0.12 %                                |



The ALLL as a percent of total loans outstanding at September 30, 2018 was 1.63 percent, which was a 3 basis points decrease compared to the prior quarter and a decrease of 36 basis points from a year ago. The Company's ALLL of \$133 million is considered adequate to absorb probable and incurred losses from any class of its loan portfolio. For the periods ended September 30, 2018 and 2017, the Company believes the ALLL 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.

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 2018, the provision for loan losses exceeded loan charge-offs, net of recoveries, by \$3.0 million. During the same period in 2017, the provision for loan losses exceeded loan charge-offs, net of recoveries, by \$4 thousand.

The Company provides commercial services to individuals, small to medium-sized businesses, community organizations and public entities from 164 locations, including 148 branches, across Montana, Idaho, Utah, Washington, Wyoming, Colorado and Arizona. The states in which the Company operates have 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.

Overall, the economic environment and housing markets throughout the Company's footprint continue to show positive signs of improvement. Home prices continue to increase in all of the states within the Company's footprint. Four of the Company's states are ranked in the top 10 nationally for house price appreciation. Home ownership in the United States has increased slightly to 64.3 percent as of the first quarter of 2018 after bottoming out at 62.9 percent in the second quarter of 2016. The long-term average for the United States homeownership rate is at 65.2 percent. Quarterly personal income growth remains in positive territory for each of the Company's states, while all of the states except Montana and Wyoming exceed the national average. The Federal Reserve Bank of Philadelphia's composite state coincident indices projects steady growth throughout the Company's footprint. The United States economy grew at or above 2.0 percent for a fifth straight quarter. All of the states in the Company's footprint have unemployment rates below 5 percent, which reflects the Federal Reserve's definition of full employment. There has been a slight uptick in crude oil and base metal prices, while natural gas prices remain steady. Certain agriculture commodities within the Company's footprint remain volatile. The tourism industry and related lodging activity continues to be a source of strength for locations where the Company's markets include national parks and similar recreational areas. However, Canadian tourism in Washington, Idaho and Montana continues to be negatively impacted by the weak Canadian dollar. It remains to be seen how much the Tax Act will impact the Company's economic environment. In general, the Company sees positive signs in the various economic indices; however, given the significant recession experienced during the late 2000s and the current lack of housing supply within the Company's footprint, the Company is cautiously optimistic about the housing market. The Company will continue to actively monitor the economy's impact on its lending portfolio.

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 were 13 percent of the Company's total loan portfolio and accounted for 18 percent and 24 percent of the Company's non-accrual loans at September 30, 2018 and December 31, 2017, respectively. Collateral securing construction loans includes residential buildings (e.g., single/multi-family and condominiums), commercial buildings, and associated land (e.g., multi-acre parcels and individual lots, with and without shorelines).

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

| (Dollars in thousands)       | September 30,<br>2018 | June 30,<br>2018 | December 31,<br>2017 | September 30,<br>2017 |
|------------------------------|-----------------------|------------------|----------------------|-----------------------|
| Specific valuation allowance | \$ 1,690              | 2,252            | 5,223                | 4,077                 |
| General valuation allowance  | 130,845               | 129,312          | 124,345              | 125,499               |
| Total ALLL                   | \$ 132,535            | 131,564          | 129,568              | 129,576               |

During 2018, the ALLL increased by \$3.0 million, the net result of a \$3.5 million decrease in the specific valuation allowance and a \$6.5 million increase in the general valuation allowance. Although loans individually evaluated for impairment with a specific impairment increased from the prior year, the specific valuation allowance decreased primarily as a result of the improvement of a single loan. The increase in the general valuation allowance since the prior year end was a result of an increase of \$553 million in loans collectively evaluated for impairment, excluding the current year acquisitions and was driven primarily from growth in the loan portfolio. At acquisition date, the assets and liabilities of the acquired banks are recorded at their estimated fair values which results in no ALLL carried over on loans from acquired banks.

For additional information regarding the ALLL, its relation to the provision for loan losses and risk related to asset quality, see Note 3 to the Consolidated Financial Statements in "Part I. Item 1. Financial Statements."

## 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)                                | Loans Receivable, by Loan Type |                 |                 |                 | % Change from |              |              |  |
|-------------------------------------------------------|--------------------------------|-----------------|-----------------|-----------------|---------------|--------------|--------------|--|
|                                                       | Sep 30,<br>2018                | Jun 30,<br>2018 | Dec 31,<br>2017 | Sep 30,<br>2017 | Jun 30, 2018  | Dec 31, 2017 | Sep 30, 2017 |  |
| Custom and owner occupied construction                | \$ 123,369                     | \$ 138,171      | \$ 109,555      | \$ 106,615      | (11)%         | 13 %         | 16 %         |  |
| Pre-sold and spec construction                        | 109,214                        | 96,008          | 72,160          | 82,023          | 14 %          | 51 %         | 33 %         |  |
| Total residential construction                        | 232,583                        | 234,179         | 181,715         | 188,638         | (1 )%         | 28 %         | 23 %         |  |
| Land development                                      | 125,272                        | 108,641         | 82,398          | 83,414          | 15 %          | 52 %         | 50 %         |  |
| Consumer land or lots                                 | 123,979                        | 110,846         | 102,289         | 99,866          | 12 %          | 21 %         | 24 %         |  |
| Unimproved land                                       | 75,183                         | 72,150          | 65,753          | 64,610          | 4 %           | 14 %         | 16 %         |  |
| Developed lots for operative builders                 | 14,922                         | 12,708          | 14,592          | 12,830          | 17 %          | 2 %          | 16 %         |  |
| Commercial lots                                       | 30,255                         | 27,661          | 23,770          | 25,984          | 9 %           | 27 %         | 16 %         |  |
| Other construction                                    | 487,428                        | 478,037         | 391,835         | 367,060         | 2 %           | 24 %         | 33 %         |  |
| Total land, lot, and other construction               | 857,039                        | 810,043         | 680,637         | 653,764         | 6 %           | 26 %         | 31 %         |  |
| Owner occupied                                        | 1,330,024                      | 1,302,737       | 1,132,833       | 1,109,796       | 2 %           | 17 %         | 20 %         |  |
| Non-owner occupied                                    | 1,564,182                      | 1,495,532       | 1,186,066       | 1,180,976       | 5 %           | 32 %         | 32 %         |  |
| Total commercial real estate                          | 2,894,206                      | 2,798,269       | 2,318,899       | 2,290,772       | 3 %           | 25 %         | 26 %         |  |
| Commercial and industrial                             | 884,414                        | 909,688         | 751,221         | 766,970         | (3 )%         | 18 %         | 15 %         |  |
| Agriculture                                           | 672,916                        | 661,218         | 450,616         | 468,168         | 2 %           | 49 %         | 44 %         |  |
| 1st lien                                              | 1,109,308                      | 1,072,917       | 877,335         | 873,061         | 3 %           | 26 %         | 27 %         |  |
| Junior lien                                           | 59,345                         | 64,821          | 51,155          | 53,337          | (8 )%         | 16 %         | 11 %         |  |
| Total 1-4 family                                      | 1,168,653                      | 1,137,738       | 928,490         | 926,398         | 3 %           | 26 %         | 26 %         |  |
| Multifamily residential                               | 222,647                        | 218,061         | 189,342         | 185,891         | 2 %           | 18 %         | 20 %         |  |
| Home equity lines of credit                           | 521,778                        | 500,036         | 440,105         | 429,483         | 4 %           | 19 %         | 21 %         |  |
| Other consumer                                        | 166,788                        | 164,288         | 148,247         | 153,363         | 2 %           | 13 %         | 9 %          |  |
| Total consumer                                        | 688,566                        | 664,324         | 588,352         | 582,846         | 4 %           | 17 %         | 18 %         |  |
| States and political subdivisions                     | 429,409                        | 419,025         | 383,252         | 351,869         | 2 %           | 12 %         | 22 %         |  |
| Other                                                 | 123,461                        | 149,915         | 144,133         | 142,826         | (18)%         | (14 )%       | (14 )%       |  |
| Total loans receivable, including loans held for sale | 8,173,894                      | 8,002,460       | 6,616,657       | 6,558,142       | 2 %           | 24 %         | 25 %         |  |
| Less loans held for sale <sup>1</sup>                 | (50,649 )                      | (53,788 )       | (38,833 )       | (48,709 )       | (6 )%         | 30 %         | 4 %          |  |
| Total loans receivable                                | \$ 8,123,245                   | \$ 7,948,672    | \$ 6,577,824    | \$ 6,509,433    | 2 %           | 23 %         | 25 %         |  |

<sup>1</sup> Loans held for sale are primarily 1st lien 1-4 family loans.

The following table summarizes the Company's non-performing assets by regulatory classification:

|                                        | Non-performing Assets,<br>by Loan Type |                 |                 |                 | Non-<br>Accrual<br>Loans | Accruing<br>Loans 90 Days<br>or<br>More Past Due | OREO            |
|----------------------------------------|----------------------------------------|-----------------|-----------------|-----------------|--------------------------|--------------------------------------------------|-----------------|
| (Dollars in thousands)                 | Sep 30,<br>2018                        | Jun 30,<br>2018 | Dec 31,<br>2017 | Sep 30,<br>2017 | Sep 30,<br>2018          | Sep 30,<br>2018                                  | Sep 30,<br>2018 |
| Custom and owner occupied construction | \$1,599                                | 48              | 48              | 177             | —                        | 1,599                                            | —               |
| Pre-sold and spec construction         | 474                                    | 492             | 38              | 267             | 474                      | —                                                | —               |
| Total residential construction         | 2,073                                  | 540             | 86              | 444             | 474                      | 1,599                                            | —               |
| Land development                       | 5,147                                  | 7,564           | 7,888           | 8,116           | 843                      | —                                                | 4,304           |
| Consumer land or lots                  | 1,592                                  | 1,593           | 1,861           | 2,451           | 526                      | —                                                | 1,066           |
| Unimproved land                        | 9,815                                  | 9,962           | 10,866          | 10,320          | 8,307                    | 28                                               | 1,480           |
| Developed lots for operative builders  | 68                                     | 126             | 116             | 116             | 43                       | —                                                | 25              |
| Commercial lots                        | 1,046                                  | 1,059           | 1,312           | 1,374           | —                        | —                                                | 1,046           |
| Other construction                     | 147                                    | 155             | 151             | 151             | 9                        | —                                                | 138             |
| Total land, lot and other construction | 17,815                                 | 20,459          | 22,194          | 22,528          | 9,728                    | 28                                               | 8,059           |
| Owner occupied                         | 11,246                                 | 12,891          | 13,848          | 14,207          | 9,978                    | 34                                               | 1,234           |
| Non-owner occupied                     | 10,847                                 | 15,337          | 4,584           | 4,251           | 10,574                   | —                                                | 273             |
| Total commercial real estate           | 22,093                                 | 28,228          | 18,432          | 18,458          | 20,552                   | 34                                               | 1,507           |
| Commercial and industrial              | 5,615                                  | 7,692           | 5,294           | 5,190           | 4,956                    | 409                                              | 250             |
| Agriculture                            | 7,856                                  | 10,497          | 3,931           | 3,998           | 6,804                    | 1,052                                            | —               |
| 1st lien                               | 9,543                                  | 9,725           | 9,261           | 7,688           | 8,922                    | 528                                              | 93              |
| Junior lien                            | 2,610                                  | 3,257           | 567             | 591             | 709                      | —                                                | 1,901           |
| Total 1-4 family                       | 12,153                                 | 12,982          | 9,828           | 8,279           | 9,631                    | 528                                              | 1,994           |
| Multifamily residential                | 613                                    | 634             | —               | —               | 613                      | —                                                | —               |
| Home equity lines of credit            | 3,470                                  | 3,112           | 3,292           | 4,151           | 2,397                    | 508                                              | 565             |
| Other consumer                         | 417                                    | 393             | 322             | 225             | 218                      | 175                                              | 24              |
| Total consumer                         | 3,887                                  | 3,505           | 3,614           | 4,376           | 2,615                    | 683                                              | 589             |
| States and political subdivisions      | —                                      | —               | 1,800           | 1,800           | —                        | —                                                | —               |
| Total                                  | \$72,105                               | 84,537          | 65,179          | 65,073          | 55,373                   | 4,333                                            | 12,399          |

The following table summarizes the Company's accruing loans 30-89 days past due by regulatory classification:

| (Dollars in thousands)                 | Accruing 30-89 Days Delinquent Loans,<br>by Loan Type |                 |                 |                 | % Change from   |                 |                 |   |
|----------------------------------------|-------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---|
|                                        | Sep 30,<br>2018                                       | Jun 30,<br>2018 | Dec 31,<br>2017 | Sep 30,<br>2017 | Jun 30,<br>2018 | Dec 31,<br>2017 | Sep 30,<br>2017 |   |
| Custom and owner occupied construction | \$ 4,502                                              | \$ 1,525        | \$ 300          | \$ 415          | 195 %           | 1,401 %         | 985             | % |
| Pre-sold and spec construction         | 494                                                   | 721             | 102             | 451             | (31 )%          | 384 %           | 10              | % |
| Total residential construction         | 4,996                                                 | 2,246           | 402             | 866             | 122 %           | 1,143 %         | 477             | % |
| Land development                       | 516                                                   | 728             | —               | 5               | (29 )%          | n/m             | 10,220          | % |
| Consumer land or lots                  | 235                                                   | 471             | 353             | 615             | (50 )%          | (33 )%          | (62 )           | % |
| Unimproved land                        | 629                                                   | 1,450           | 662             | 621             | (57 )%          | (5 )%           | 1               | % |
| Developed lots for operative builders  | —                                                     | —               | 7               | —               | n/m             | (100 )%         | n/m             |   |
| Commercial lots                        | —                                                     | —               | 108             | 15              | n/m             | (100 )%         | (100 )          | % |
| Total land, lot and other construction | 1,380                                                 | 2,649           | 1,130           | 1,256           | (48 )%          | 22 %            | 10              | % |
| Owner occupied                         | 2,872                                                 | 3,571           | 4,726           | 4,450           | (20 )%          | (39 )%          | (35 )           | % |
| Non-owner occupied                     | 1,131                                                 | 8,414           | 2,399           | 5,502           | (87 )%          | (53 )%          | (79 )           | % |
| Total commercial real estate           | 4,003                                                 | 11,985          | 7,125           | 9,952           | (67 )%          | (44 )%          | (60 )           | % |
| Commercial and industrial              | 4,791                                                 | 5,745           | 6,472           | 5,784           | (17 )%          | (26 )%          | (17 )           | % |
| Agriculture                            | 1,332                                                 | 5,288           | 3,205           | 780             | (75 )%          | (58 )%          | 71              | % |
| 1st lien                               | 3,795                                                 | 5,132           | 10,865          | 2,973           | (26 )%          | (65 )%          | 28              | % |
| Junior lien                            | 420                                                   | 989             | 4,348           | 3,463           | (58 )%          | (90 )%          | (88 )           | % |
| Total 1-4 family                       | 4,215                                                 | 6,121           | 15,213          | 6,436           | (31 )%          | (72 )%          | (35 )           | % |
| Multifamily residential                | —                                                     | —               | —               | 237             | n/m             | n/m             | (100 )          | % |
| Home equity lines of credit            | 2,467                                                 | 3,940           | 1,962           | 2,065           | (37 )%          | 26 %            | 19              | % |
| Other consumer                         | 1,903                                                 | 1,665           | 2,109           | 1,735           | 14 %            | (10 )%          | 10              | % |
| Total consumer                         | 4,370                                                 | 5,605           | 4,071           | 3,800           | (22 )%          | 7 %             | 15              | % |
| Other                                  | 94                                                    | 11              | 69              | 4               | 755 %           | 36 %            | 2,250           | % |
| Total                                  | \$ 25,181                                             | \$ 39,650       | \$ 37,687       | \$ 29,115       | (36 )%          | (33 )%          | (14 )           | % |

n/m - not measurable

The following table summarizes the Company's charge-offs and recoveries by regulatory classification:

| (Dollars in thousands)                 | Net Charge-Offs (Recoveries), Year-to-Date<br>Period Ending, By Loan Type |                 |                 |                 | Charge-Offs     | Recoveries      |
|----------------------------------------|---------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                        | Sep 30,<br>2018                                                           | Jun 30,<br>2018 | Dec 31,<br>2017 | Sep 30,<br>2017 | Sep 30,<br>2018 | Sep 30,<br>2018 |
| Custom and owner occupied construction | \$ —                                                                      | —               | —               | 58              | —               | —               |
| Pre-sold and spec construction         | (348)                                                                     | (344)           | (23)            | (19)            | 17              | 365             |
| Total residential construction         | (348)                                                                     | (344)           | (23)            | 39              | 17              | 365             |
| Land development                       | (110)                                                                     | (107)           | (143)           | (67)            | —               | 110             |
| Consumer land or lots                  | (121)                                                                     | (92)            | 222             | (150)           | 206             | 327             |
| Unimproved land                        | (288)                                                                     | (144)           | (304)           | (177)           | —               | 288             |
| Developed lots for operative builders  | 33                                                                        | 33              | (107)           | (16)            | 33              | —               |
| Commercial lots                        | 3                                                                         | 4               | (6)             | (4)             | 7               | 4               |
| Other construction                     | (4)                                                                       | —               | 389             | 390             | —               | 4               |
| Total land, lot and other construction | (487)                                                                     | (306)           | 51              | (24)            | 246             | 733             |
| Owner occupied                         | 902                                                                       | 1,000           | 3,908           | 3,416           | 1,084           | 182             |
| Non-owner occupied                     | (6)                                                                       | (4)             | 368             | 214             | 59              | 65              |
| Total commercial real estate           | 896                                                                       | 996             | 4,276           | 3,630           | 1,143           | 247             |
| Commercial and industrial              | 1,893                                                                     | 1,471           | 883             | 429             | 2,527           | 634             |
| Agriculture                            | 39                                                                        | 44              | 9               | (11)            | 50              | 11              |
| 1st lien                               | 8                                                                         | (193)           | (23)            | (201)           | 257             | 249             |
| Junior lien                            | 486                                                                       | (34)            | 719             | 746             | 959             | 473             |
| Total 1-4 family                       | 494                                                                       | (227)           | 696             | 545             | 1,216           | 722             |
| Multifamily residential                | (6)                                                                       | (6)             | (230)           | (229)           | —               | 6               |
| Home equity lines of credit            | (39)                                                                      | (38)            | 272             | 262             | 101             | 140             |
| Other consumer                         | 161                                                                       | 111             | 505             | 98              | 381             | 220             |
| Total consumer                         | 122                                                                       | 73              | 777             | 360             | 482             | 360             |
| Other                                  | 3,137                                                                     | 1,816           | 4,389           | 3,195           | 6,224           | 3,087           |
| Total                                  | \$ 5,740                                                                  | 3,517           | 10,828          | 7,934           | 11,905          | 6,165           |

### Sources of Funds

The Company's deposits have traditionally been the principal source of funds for use in lending and other business purposes. The Company also obtains funds from repayment of loans and debt securities, repurchase agreements, wholesale deposits, advances from FHLB and other borrowings. Loan repayments are a relatively stable source of funds, while interest bearing deposit inflows and outflows are significantly influenced by general interest rate levels and market conditions. Borrowings and advances may be used on a short-term basis to compensate for reductions in normal sources of funds such as deposit inflows at less than projected levels. Borrowings also may be used on a long-term basis to support expanded activities, match maturities of longer-term assets or manage interest rate risk.

### Deposits

The Company has several deposit programs designed to attract both short-term and long-term deposits from the general public by providing a wide selection of accounts and rates. These programs include non-interest bearing deposit accounts and interest bearing deposit accounts such as NOW, DDA, savings, money market deposits, fixed rate certificates of deposit with maturities ranging from three months to five years, negotiated-rate jumbo certificates, and individual retirement accounts. These deposits are obtained primarily from individual and business residents in the Bank's geographic market areas. Wholesale deposits are obtained through various programs and include brokered deposits classified as NOW, DDA, money market deposit and certificate accounts. During 2017, the Company utilized a third party vendor to transfer deposits off-balance sheet. All of such deposits were brought back onto the Company's balance sheet during 2018. The Company's deposits are summarized below:

|                                 | September 30, 2018 |         |   | December 31, 2017 |         |   | September 30, 2017 |         |   |
|---------------------------------|--------------------|---------|---|-------------------|---------|---|--------------------|---------|---|
| (Dollars in thousands)          | Amount             | Percent |   | Amount            | Percent |   | Amount             | Percent |   |
| Non-interest bearing deposits   | \$3,103,112        | 32      | % | \$2,311,902       | 31      | % | \$2,355,983        | 30      | % |
| NOW and DDA accounts            | 2,346,050          | 24      | % | 1,695,246         | 22      | % | 1,733,353          | 22      | % |
| Savings accounts                | 1,345,163          | 14      | % | 1,082,604         | 14      | % | 1,081,056          | 14      | % |
| Money market deposit accounts   | 1,722,975          | 18      | % | 1,512,693         | 20      | % | 1,564,738          | 20      | % |
| Certificate accounts            | 932,461            | 10      | % | 817,259           | 11      | % | 846,005            | 11      | % |
| Wholesale deposits              | 151,421            | 2       | % | 160,043           | 2       | % | 186,019            | 3       | % |
| Total interest bearing deposits | 6,498,070          | 68      | % | 5,267,845         | 69      | % | 5,411,171          | 70      | % |
| Total deposits                  | \$9,601,182        | 100     | % | \$7,579,747       | 100     | % | \$7,767,154        | 100     | % |

### Securities Sold Under Agreements to Repurchase, Federal Home Loan Bank Advances and Other Borrowings

The Company borrows money through repurchase agreements. This process involves the selling of one or more of the securities in the Company's investment portfolio and simultaneously entering into an agreement to repurchase the same securities at an agreed upon later date, typically overnight. A rate of interest is paid for the agreed period of time. Through a policy adopted by the Bank's Board of Directors, the Bank enters into repurchase agreements with local municipalities, and certain customers, and has adopted procedures designed to ensure proper transfer of title and safekeeping of the underlying securities. In addition to retail repurchase agreements, the Company periodically enters into wholesale repurchase agreements as additional funding sources. The Company has not entered into reverse repurchase agreements.

The Bank is a member of the FHLB of Des Moines, which is one of eleven banks that comprise the FHLB system. The Bank is required to maintain a certain level of activity-based stock in order to borrow or to engage in other transactions with the FHLB of Des Moines. Additionally, the Bank is subject to a membership capital stock requirement that is based upon an annual calibration tied to the total assets of the Bank. The borrowings are collateralized by eligible categories of loans and debt securities (principally, securities which are obligations of, or guaranteed by, the U.S. government and its agencies), provided certain standards related to credit-worthiness have been met. Advances are made pursuant to several different credit programs, each of which has its own interest rates

and range of maturities. The Bank's maximum amount of FHLB advances is limited to the lesser of a fixed percentage of the Bank's total assets or the discounted value of eligible collateral. FHLB advances fluctuate to meet seasonal and other withdrawals of deposits and to expand lending or investment opportunities of the Company.

Additionally, the Company has other sources of secured and unsecured borrowing lines from various sources that may be used from time to time.

### Short-term borrowings

A critical component of the Company's liquidity and capital resources is access to short-term borrowings to fund its operations. Short-term borrowings are accompanied by increased risks managed by the Bank's Asset Liability Committee ("ALCO") such as rate increases or unfavorable change in terms which would make it more costly to obtain future short-term borrowings. The Company's short-term borrowing sources include FHLB advances, federal funds purchased and retail and wholesale repurchase agreements. The Company also has access to the short-term discount window borrowing programs (i.e., primary credit) of the Federal Reserve Bank ("FRB"). FHLB advances and certain other short-term borrowings may be renewed as long-term borrowings to decrease certain risks such as liquidity or interest rate risk; however, the reduction in risks are weighed against the increased cost of funds and other risks.

The following table provides information relating to significant short-term borrowings, which consists of borrowings that mature within one year of period end:

|                                              | At or for the<br>Nine Months<br>ended<br>September 30,<br>2018 | At or for the<br>Year ended<br>December 31,<br>2017 |
|----------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------|
| (Dollars in thousands)                       |                                                                |                                                     |
| Repurchase agreements                        |                                                                |                                                     |
| Amount outstanding at end of period          | \$ 408,754                                                     | 362,573                                             |
| Weighted interest rate on outstanding amount | 0.61 %                                                         | 0.53 %                                              |
| Maximum outstanding at any month-end         | \$ 408,754                                                     | 497,187                                             |
| Average balance                              | \$ 381,109                                                     | 413,873                                             |
| Weighted-average interest rate               | 0.54 %                                                         | 0.45 %                                              |

### Subordinated Debentures

In addition to funds obtained in the ordinary course of business, the Company formed or acquired financing subsidiaries for the purpose of issuing trust preferred securities that entitle the investor to receive cumulative cash distributions thereon. Subordinated debentures were issued in conjunction with the trust preferred securities and the terms of the subordinated debentures and trust preferred securities are the same. For regulatory capital purposes, the trust preferred securities are included in Tier 1 capital up to a certain limit. The Company also assumed subordinated debt that qualifies as Tier 2 capital from the FSB acquisition. The subordinated debentures outstanding as of September 30, 2018 were \$134 million, including fair value adjustments from acquisitions.

### Contractual Obligations and Off-Balance Sheet Arrangements

In the normal course of business, there may be various outstanding commitments to obtain funding and to extend credit, such as letters of credit and un-advanced loan commitments, which are not reflected in the accompanying condensed consolidated financial statements. The Company does not anticipate any material losses as a result of these transactions.

Off-balance sheet arrangements also include any obligation related to a variable interest held in an unconsolidated entity. The Company does not anticipate any material losses as a result of these transactions. For additional information regarding the Company's interests in unconsolidated variable interest entities ("VIE"), see Note 5 to the Consolidated Financial Statements in "Part I. Item 1. Financial Statements."

### Liquidity Risk

Liquidity risk is the possibility that the Company will not be able to fund present and future obligations as they come due because of an inability to liquidate assets or obtain adequate funding at a reasonable cost. The objective of liquidity management is to maintain cash flows adequate to meet current and future needs for credit demand, deposit withdrawals, maturing liabilities and corporate operating expenses. Effective liquidity management entails three elements:

1. assessing on an ongoing basis, the current and expected future needs for funds, and ensuring that sufficient funds or access to funds exist to meet those needs at the appropriate time;
2. providing for an adequate cushion of liquidity to meet unanticipated cash flow needs that may arise from potential adverse circumstances ranging from high probability/low severity events to low probability/high severity; and
3. balancing the benefits between providing for adequate liquidity to mitigate potential adverse events and the cost of that liquidity.

The Company has a wide range of versatility in managing the liquidity and asset/liability mix. The Bank's ALCO meets regularly to assess liquidity risk, among other matters. The Company monitors liquidity and contingency funding alternatives through management reports of liquid assets (e.g., debt securities), both unencumbered and pledged, as well as borrowing capacity, both secured and unsecured, including off-balance sheet funding sources. The Company evaluates its potential funding needs across alternative scenarios and maintains contingency funding plans consistent with the Company's access to diversified sources of contingent funding.

The following table identifies certain liquidity sources and capacity available to the Company as of the dates indicated:

| (Dollars in thousands)                 | September 30,<br>2018 | December 31,<br>2017 |
|----------------------------------------|-----------------------|----------------------|
| FHLB advances                          |                       |                      |
| Borrowing capacity                     | \$ 2,243,642          | 1,807,787            |
| Amount utilized                        | (160,306 )            | (360,185 )           |
| Amount available                       | \$ 2,083,336          | 1,447,602            |
| FRB discount window                    |                       |                      |
| Borrowing capacity                     | \$ 915,723            | 1,054,103            |
| Amount utilized                        | —                     | —                    |
| Amount available                       | \$ 915,723            | 1,054,103            |
| Unsecured lines of credit available    | \$ 230,000            | 230,000              |
| Unencumbered debt securities           |                       |                      |
| U.S. government and federal agency     | \$ 25,267             | 29,097               |
| U.S. government sponsored enterprises  | 107,412               | 3,358                |
| State and local governments            | 616,536               | 769,786              |
| Corporate bonds                        | 304,724               | 5,982                |
| Residential mortgage-backed securities | 230,491               | 115,527              |
| Commercial mortgage-backed securities  | 96,767                | 54,998               |
| Total unencumbered securities          | \$ 1,381,197          | 978,748              |

### Capital Resources

Maintaining capital strength continues to be a long-term objective of the Company. Abundant capital is necessary to sustain growth, provide protection against unanticipated declines in asset values, and to safeguard the funds of depositors. Capital is also a source of funds for loan demand and enables the Company to effectively manage its assets and liabilities. The Company has the capacity to issue 117,187,500 shares of common stock of which 84,521,093 have been issued as of September 30, 2018. The Company also has the capacity to issue 1,000,000 shares of preferred stock of which none have been issued as of September 30, 2018. Conversely, the Company may decide to utilize a portion of its strong capital position, as it has done in the past, to repurchase shares of its outstanding common stock, depending on market price and other relevant considerations.

The Federal Reserve has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. The federal banking agencies implemented final rules ("Final Rules") to establish a new comprehensive regulatory capital framework with a phase-in period beginning on January 1, 2015 and ending on January 1, 2019. The Final Rules implemented certain regulatory amendments based on the recommendation of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act and substantially amended the regulatory risk-based capital rules applicable to the Company. The Final Rules require the Company to hold a conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer for 2018 is 1.875%. As of September 30, 2018, management believes the Company and Bank meet all capital adequacy requirements to which they are subject and there are no conditions or events subsequent to this date that management believes have changed the Company's or Bank's risk-based capital category.

The following table illustrates the Bank's regulatory ratios and the Federal Reserve's current capital adequacy guidelines as of September 30, 2018. The Federal Reserve's fully phased-in guidelines applicable in 2019 are also summarized.

|                                                                                            | Total Capital<br>(To<br>Risk-Weighted<br>Assets) |   | Tier 1 Capital<br>(To<br>Risk-Weighted<br>Assets) |   | Common<br>Equity Tier 1<br>(To<br>Risk-Weighted<br>Assets) |   | Leverage<br>Ratio/<br>Tier 1<br>Capital<br>(To<br>Average<br>Assets) |   |
|--------------------------------------------------------------------------------------------|--------------------------------------------------|---|---------------------------------------------------|---|------------------------------------------------------------|---|----------------------------------------------------------------------|---|
| Glacier Bank actual regulatory ratios                                                      | 14.56                                            | % | 13.31                                             | % | 13.31                                                      | % | 11.14                                                                | % |
| Minimum capital requirements                                                               | 8.00                                             | % | 6.00                                              | % | 4.50                                                       | % | 4.00                                                                 | % |
| Well capitalized requirements                                                              | 10.00                                            | % | 8.00                                              | % | 6.50                                                       | % | 5.00                                                                 | % |
| Minimum capital requirements, including fully-phased in capital conservation buffer (2019) | 10.50                                            | % | 8.50                                              | % | 7.00                                                       | % | N/A                                                                  |   |

### Federal and State Income Taxes

The Company files a consolidated federal income tax return using the accrual method of accounting. All required tax returns have been timely filed. Financial institutions are subject to the provisions of the Internal Revenue Code of 1986, as amended, in the same general manner as other corporations.

Under Montana, Idaho, Utah, Colorado and Arizona law, financial institutions are subject to a corporation income tax, which incorporates or is substantially similar to applicable provisions of the Internal Revenue Code. The corporation income tax is imposed on federal taxable income, subject to certain adjustments. State taxes are incurred at the rate of 6.75 percent in Montana, 7.4 percent in Idaho, 5 percent in Utah, 4.63 percent in Colorado and 4.9 percent in Arizona. Washington and Wyoming do not impose a corporate income tax.

Income tax expense for the nine months ended September 30, 2018 and 2017 was \$28.7 million and \$33.3 million, respectively. The Company's effective tax rate for the nine months ended September 30, 2018 and 2017 was 17.8 percent and 24.7 percent, respectively. The current year effective tax rate was significantly lower than the prior year and was attributable to the decrease in the federal income tax rate driven by the Tax Act. The prior year federal statutory tax rate was 35 percent and was decreased to 21 percent in the current year. Furthermore, the current year and prior year's effective tax rates are lower due to income from tax-exempt debt securities, municipal loans and leases and benefits from federal income tax credits. Income from tax-exempt debt securities, loans and leases was \$41.9 million and \$42.2 million for the nine months ended September 30, 2018 and 2017, respectively. Benefits from federal income tax credits were \$6.4 million and \$4.3 million for the nine months ended September 30, 2018 and 2017, respectively.

The Company has equity investments in Certified Development Entities ("CDE") which have received allocations of New Markets Tax Credits ("NMTC"). Administered by the Community Development Financial Institutions Fund ("CDFI Fund") of the U.S. Department of the Treasury, the NMTC program is aimed at stimulating economic and community development and job creation in low-income communities. The federal income tax credits received are claimed over a seven-year credit allowance period. The Company also has equity investments in Low-Income Housing Tax Credits ("LIHTC") which are indirect federal subsidies used to finance the development of affordable rental housing for low-income households. The federal income tax credits are claimed over a ten-year credit allowance period. The Company has investments of \$20.7 million in Qualified Zone Academy and Qualified School Construction bonds whereby the Company receives quarterly federal income tax credits in lieu of taxable interest income. The federal income tax credits on these debt securities are subject to federal and state income tax.

Following is a list of expected federal income tax credits to be received in the years indicated.

| (Dollars in thousands) | New<br>Markets<br>Tax Credits | Low-Income<br>Housing<br>Tax Credits | Debt<br>Securities<br>Tax Credits | Total  |
|------------------------|-------------------------------|--------------------------------------|-----------------------------------|--------|
| 2018                   | \$ 3,716                      | 4,901                                | 908                               | 9,525  |
| 2019                   | 3,815                         | 5,798                                | 850                               | 10,463 |
| 2020                   | 4,137                         | 5,782                                | 791                               | 10,710 |
| 2021                   | 4,305                         | 4,965                                | 737                               | 10,007 |
| 2022                   | 3,537                         | 4,936                                | 673                               | 9,146  |
| Thereafter             | 3,952                         | 24,281                               | 2,149                             | 30,382 |
|                        | \$ 23,462                     | 50,663                               | 6,108                             | 80,233 |

Average Balance Sheet

The following schedule provides 1) the total dollar amount of interest and dividend income of the Company for earning assets and the average yields; 2) the total dollar amount of interest expense on interest bearing liabilities and the average rates; 3) net interest and dividend income and interest rate spread; and 4) net interest margin (tax-equivalent).

| (Dollars in thousands)                         | Three Months ended<br>September 30, 2018 |                              |                           | Nine Months ended<br>September 30, 2018 |                              |                           |
|------------------------------------------------|------------------------------------------|------------------------------|---------------------------|-----------------------------------------|------------------------------|---------------------------|
|                                                | Average<br>Balance                       | Interest<br>and<br>Dividends | Average<br>Yield/<br>Rate | Average<br>Balance                      | Interest<br>and<br>Dividends | Average<br>Yield/<br>Rate |
| <b>Assets</b>                                  |                                          |                              |                           |                                         |                              |                           |
| Residential real estate loans                  | \$893,972                                | \$10,356                     | 4.63 %                    | \$851,280                               | \$29,290                     | 4.59 %                    |
| Commercial loans <sup>1</sup>                  | 6,361,742                                | 81,636                       | 5.09 %                    | 6,026,787                               | 224,944                      | 4.99 %                    |
| Consumer and other loans                       | 796,558                                  | 9,991                        | 4.98 %                    | 759,437                                 | 27,987                       | 4.93 %                    |
| Total loans <sup>2</sup>                       | 8,052,272                                | 101,983                      | 5.02 %                    | 7,637,504                               | 282,221                      | 4.94 %                    |
| Tax-exempt investment securities <sup>3</sup>  | 1,074,266                                | 12,389                       | 4.61 %                    | 1,084,436                               | 37,818                       | 4.65 %                    |
| Taxable investment securities <sup>4</sup>     | 1,838,949                                | 12,425                       | 2.70 %                    | 1,809,047                               | 35,327                       | 2.60 %                    |
| Total earning assets                           | 10,965,487                               | 126,797                      | 4.59 %                    | 10,530,987                              | 355,366                      | 4.51 %                    |
| Goodwill and intangibles                       | 341,354                                  |                              |                           | 301,786                                 |                              |                           |
| Non-earning assets                             | 476,135                                  |                              |                           | 447,226                                 |                              |                           |
| Total assets                                   | \$11,782,976                             |                              |                           | \$11,279,999                            |                              |                           |
| <b>Liabilities</b>                             |                                          |                              |                           |                                         |                              |                           |
| Non-interest bearing deposits                  | \$2,988,562                              | \$—                          | — %                       | \$2,755,702                             | \$—                          | — %                       |
| NOW and DDA accounts                           | 2,304,338                                | 997                          | 0.17 %                    | 2,211,982                               | 2,824                        | 0.17 %                    |
| Savings accounts                               | 1,340,003                                | 219                          | 0.06 %                    | 1,282,161                               | 642                          | 0.07 %                    |
| Money market deposit accounts                  | 1,720,845                                | 881                          | 0.20 %                    | 1,700,216                               | 2,457                        | 0.19 %                    |
| Certificate accounts                           | 942,417                                  | 1,728                        | 0.73 %                    | 920,222                                 | 4,639                        | 0.67 %                    |
| Total core deposits                            | 9,296,165                                | 3,825                        | 0.16 %                    | 8,870,283                               | 10,562                       | 0.16 %                    |
| Wholesale deposits <sup>5</sup>                | 166,009                                  | 1,012                        | 2.42 %                    | 156,298                                 | 2,808                        | 2.40 %                    |
| FHLB advances                                  | 209,248                                  | 2,132                        | 3.99 %                    | 241,438                                 | 6,734                        | 3.68 %                    |
| Repurchase agreements and other borrowed funds | 534,384                                  | 2,191                        | 1.63 %                    | 522,267                                 | 5,991                        | 1.53 %                    |
| Total interest bearing liabilities             | 10,205,806                               | 9,160                        | 0.36 %                    | 9,790,286                               | 26,095                       | 0.36 %                    |
| Other liabilities                              | 82,621                                   |                              |                           | 61,272                                  |                              |                           |
| Total liabilities                              | 10,288,427                               |                              |                           | 9,851,558                               |                              |                           |
| <b>Stockholders' Equity</b>                    |                                          |                              |                           |                                         |                              |                           |
| Common stock                                   | 845                                      |                              |                           | 833                                     |                              |                           |
| Paid-in capital                                | 1,050,081                                |                              |                           | 1,002,321                               |                              |                           |
| Retained earnings                              | 467,671                                  |                              |                           | 444,116                                 |                              |                           |
| Accumulated other comprehensive loss           | (24,048 )                                |                              |                           | (18,829 )                               |                              |                           |
| Total stockholders' equity                     | 1,494,549                                |                              |                           | 1,428,441                               |                              |                           |
| Total liabilities and stockholders' equity     | \$11,782,976                             |                              |                           | \$11,279,999                            |                              |                           |
| Net interest income (tax-equivalent)           |                                          | \$117,637                    |                           |                                         | \$329,271                    |                           |
| Net interest spread (tax-equivalent)           |                                          |                              | 4.23 %                    |                                         |                              | 4.15 %                    |
| Net interest margin (tax-equivalent)           |                                          |                              | 4.26 %                    |                                         |                              | 4.18 %                    |

<sup>1</sup> Includes tax effect of \$1.0 million and \$3.0 million on tax-exempt municipal loan and lease income for the three and nine months ended September 30, 2018, respectively.

<sup>2</sup> Total loans are gross of the allowance for loan and lease losses, net of unearned income and include loans held for sale. Non-accrual loans were included in the average volume for the entire period.

<sup>3</sup> Includes tax effect of \$2.5 million and \$7.7 million on tax-exempt debt securities income for the three and nine months ended September 30, 2018, respectively.

- 4 Includes tax effect of \$304 thousand and \$913 thousand on federal income tax credits for the three and nine months ended September 30, 2018, respectively.
- 5 Wholesale deposits include brokered deposits classified as NOW, DDA, money market deposit and certificate accounts.

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## Rate/Volume Analysis

Net interest income can be evaluated from the perspective of relative dollars of change in each period. Interest income and interest expense, which are the components of net interest income, are shown in the following table on the basis of the amount of any increases (or decreases) attributable to changes in the dollar levels of the Company's interest earning assets and interest bearing liabilities ("volume") and the yields earned and paid on such assets and liabilities ("rate"). The change in interest income and interest expense attributable to changes in both volume and rates has been allocated proportionately to the change due to volume and the change due to rate.

|                                                | Year ended September 30,<br>2018 vs. 2017<br>Increase (Decrease) Due<br>to: |          |          |
|------------------------------------------------|-----------------------------------------------------------------------------|----------|----------|
| (Dollars in thousands)                         | Volume                                                                      | Rate     | Net      |
| Interest income                                |                                                                             |          |          |
| Residential real estate loans                  | \$3,701                                                                     | 995      | 4,696    |
| Commercial loans (tax-equivalent)              | 48,507                                                                      | 5,833    | 54,340   |
| Consumer and other loans                       | 2,813                                                                       | 976      | 3,789    |
| Investment securities (tax-equivalent)         | (2,547 )                                                                    | (5,853 ) | (8,400 ) |
| Total interest income                          | 52,474                                                                      | 1,951    | 54,425   |
| Interest expense                               |                                                                             |          |          |
| NOW and DDA accounts                           | 346                                                                         | 1,484    | 1,830    |
| Savings accounts                               | 104                                                                         | 78       | 182      |
| Money market deposit accounts                  | 179                                                                         | 481      | 660      |
| Certificate accounts                           | 51                                                                          | 677      | 728      |
| Wholesale deposits                             | (3,189 )                                                                    | (346 )   | (3,535 ) |
| FHLB advances                                  | (482 )                                                                      | 2,574    | 2,092    |
| Repurchase agreements and other borrowed funds | (304 )                                                                      | 1,650    | 1,346    |
| Total interest expense                         | (3,295 )                                                                    | 6,598    | 3,303    |
| Net interest income (tax-equivalent)           | \$55,769                                                                    | (4,647)  | 51,122   |

Net interest income (tax-equivalent) increased \$51.1 million for the nine months ended September 30, 2018 compared to the same period in 2017. The interest income for the current year nine months increased over the same period last year primarily from increased growth of the Company's commercial loan portfolio. The decrease in interest income on the debt securities portfolio was the result of the redeployment of cash flow from debt securities into the loan portfolio and the decrease in the tax benefit related to the tax-exempt debt securities. Total interest expense increased from prior year primarily from an increase in deposit and FHLB interest rates, which was partially offset by the decrease in wholesale deposits.

## Effect of inflation and changing prices

Accounting principles generally accepted in the United States of America ("GAAP") often requires the measurement of financial position and operating results in terms of historical dollars, without consideration for change in relative purchasing power over time due to inflation. Virtually all assets of the Company are monetary in nature; therefore, interest rates generally have a more significant impact on a company's performance than does the effect of inflation.

### Item 3. Quantitative and Qualitative Disclosure about Market Risk

The Company's assessment of market risk as of September 30, 2018 indicates there are no material changes in the quantitative and qualitative disclosures from those in the 2017 Annual Report.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as required by Exchange Act Rules 240.13a-15(b) and 15d-14(c)) as of September 30, 2018. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective and timely, providing them with material information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act.

#### Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2018, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

The Company believes there have been no material changes from risk factors previously disclosed in the 2017 Annual Report. The risks and uncertainties described in the 2017 Annual Report should be carefully reviewed. These are not the only risks and uncertainties that the Company faces. Additional risks and uncertainties that the Company does not currently know about or that the Company currently believes are immaterial, or that the Company has not predicted, may also harm its business operations or adversely affect the Company. If any of these risks or uncertainties actually occurs, the Company's business, financial condition, operating results or liquidity could be adversely affected.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not Applicable

(b) Not Applicable

(c)Not Applicable

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Item 3. Defaults upon Senior Securities

(a) Not Applicable

(b) Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

(a) Not Applicable

(b) Not Applicable

Item 6. Exhibits

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002

Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002

Exhibit 32 - Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002

The following financial information from Glacier Bancorp, Inc's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 is formatted in XBRL: (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income, (iv) the Unaudited Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLACIER BANCORP, INC.

November 1, 2018 /s/ Randall M. Chesler  
Randall M. Chesler  
President and CEO

November 1, 2018 /s/ Ron J. Copher  
Ron J. Copher  
Executive Vice President and CFO