GLACIER BANCORP INC
Form 10-K/A
March 12, 2010

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

FORM 10-K/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

or

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

COMMISSION FILE 000-18911

GLACIER BANCORP, INC.

| MONTANA | 81-0519541 |
|---|---|
| (State of Incorporation) | (IRS Employer Identification Number) |

49 Commons Loop, Kalispell, MT 59901
(Address of Principal Office)

Registrant's telephone number, including area code: (406) 756-4200

Securities registered pursuant to Section 12(b) of the Act:

| Common Stock, $0.01 par value per share | Nasdaq Global Select Market |
|---|---|
| (Title of Each Class) | (Name of Each Exchange on Which Registered) |

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [X] Yes [ ] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No

Indicate by check mark whether the registrant (i) 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 (ii) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. [ ] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined by Exchange Act Rule 12b-2).

| | |
|---|---|
| [X] Large accelerated filer | [ ] Accelerated filer |
| [ ] Non-accelerated filer<br>(Do not check if a smaller reporting company) | [ ] Smaller reporting company |

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

The aggregate market value of the voting common equity held by non-affiliates of the Registrant at June 30, 2009 (the last business day of the most recent second quarter), was $876,495,372 (based on the average bid and ask price as quoted on the NASDAQ Global Select Market at the close of business on that date).

As of February 15, 2010, there were issued and outstanding 61,619,803 shares of the Registrant's common stock. No preferred shares are issued or outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the 2010 Annual Meeting Proxy Statement dated March 29, 2010 are incorporated by reference into Part III of this Form 10-K.

## EXPLANATORY NOTE

On March 1, 2010 Glacier Bancorp, Inc. (the "Company") filed with the Securities and Exchange Commission (the "SEC") its Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the "10-K Report"). During the process of submitting the 10-K Report via EDGAR to the SEC, certain information presented in tabular form was misaligned requiring this Amendment No. 1 (the "Amendment"). More specifically, the Company is filing this Amendment to the 10-K Report to (i) amend Item 1 (Business) to correct the non-performing assets by loan type table included in the lending activity section presented therein; (ii) Item 8 (Financial Statements and Supplementary Data) to correct the operating segment table for 2009 included in footnote twenty-one presented therein; and (iii) Item 15 (Exhibits and Financial Statement Schedules) to update the consent of the independent auditors.

No other revisions or amendments have been made to Part I, Part II or Part IV of the 10-K Report. This Amendment does not reflect events occurring after March 1, 2010, the date of the original filing of our 10-K Report, or modify or update those disclosures that may have been affected by subsequent events. In addition, currently-dated certifications from our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this Amendment.

GLACIER BANCORP, INC.
FORM 10-K/A
(Amendment No. 1)

ANNUAL REPORT

TABLE OF CONTENTS


| | Page |
|---|---|
| PART I | |
| Item 1 Business | 4 |
| PART II | |
| Item 8 Financial Statements and Supplementary Data | 31 |
| PART IV | |
| Item 15 Exhibits and Financial Statement Schedules | 78 |


PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Glacier Bancorp, Inc. headquartered in Kalispell, Montana (the "Company"), is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation originally incorporated in 1990. The Company is a regional multi-bank holding company providing commercial banking services from 106 locations in Montana, Idaho, Wyoming, Colorado, Utah and Washington. The Company offers a wide range of banking products and services, including transaction and savings deposits, commercial, consumer, and real estate loans, mortgage origination services, and retail brokerage services. The Company serves individuals, small to medium-sized businesses, community organizations and public entities.

SUBSIDIARIES

The Company includes the parent holding company and the following eighteen subsidiaries which consist of eleven bank subsidiaries and seven trust subsidiaries.

Bank Subsidiaries

Montana
Glacier Bank ("Glacier") founded in 1955
First Security Bank of Missoula ("First Security") founded in 1973
Western Security Bank ("Western") founded in 2001
Big Sky Western Bank ("Big Sky") founded in 1990
Valley Bank of Helena ("Valley") founded in 1978
First Bank of Montana ("First Bank-MT") founded in 1924

Colorado
Bank of the San Juans ("San Juans") founded in 1998

Idah
Mountain West Bank ("Mountai
Citizens Community Bank ("Ci

Wyomi
1st Bank ("1st Bank"
First National Bank & Tru
founded i

Trust Subsidiaries
Glacier Capital Trust II ("Glacier Trust II")
Glacier Capital Trust III ("Glacier Trust III")
Glacier Capital Trust IV ("Glacier Trust IV")

Citizens (ID) Statutory Trust I ("Citizens Trust I")
Bank of the San Juans Bancorporation Trust I ("San Juans Trust I")
First Company Statutory Trust 2001 ("First Co Trust 01")
First Company Statutory Trust 2003 ("First Co Trust 03")

The Company formed or acquired First Co Trust 01, First Co Trust 03, San Juans Trust I, Glacier Trust IV, Glacier Trust III, Citizens Trust I, and Glacier Trust II as financing subsidiaries on October 2, 2009, October 2, 2009, December 1, 2008, August 15, 2006, January 31, 2006, April 1, 2005, and March 24, 2004, respectively. The trusts were formed for the purpose of issuing trust preferred securities and, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification(TM) ("ASC") Topic 810, Consolidation, the subsidiaries are not consolidated into the Company's financial statements. The preferred securities entitle the shareholder to receive cumulative cash distributions from payments on Subordinated Debentures of the Company. For additional information regarding the Subordinated Debentures, see Note 10 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data."

On February 1, 2009, First National Bank of Morgan ("Morgan") merged into 1st Bank resulting in operations being conducted under the 1st Bank charter. Prior period activity of Morgan has been combined and included in 1st Bank's historical results. The merger has been accounted for as a combination of two wholly-owned subsidiaries without acquisition accounting.

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

4

RECENT AND PENDING ACQUISITIONS

The Company's strategy has been to profitably grow its business through internal growth and selective acquisitions. The Company continues to look for profitable expansion opportunities in existing markets and new markets in the Rocky Mountain states. During the last five years, the Company has completed the following acquisitions: On October 2, 2009, First Company and its subsidiary, First National Bank & Trust, was acquired by the Company. On December 1, 2008, Bank of the San Juans Bancorporation and its subsidiary, Bank of the San Juans in Durango, Colorado, was acquired by the Company. On April 30, 2007, North Side State Bank in Rock Springs, Wyoming was acquired and became a part of 1st Bank. On October 1, 2006, Citizens Development Company ("CDC") and its five bank subsidiaries located across Montana were acquired by the Company. On September 1, 2006, First National Bank of Morgan and its one branch office in Mountain Green, Utah was acquired. On October 31, 2005, First State Bank of Thompson Falls, Montana was acquired and its two branches were merged into First Security. On May 20, 2005, Zions National Bank branch office in Bonners Ferry, Idaho was acquired and became a branch of Mountain West. On April 1, 2005, Citizens Bank Holding Co. and its subsidiary Citizens Community Bank in Pocatello, Idaho was acquired. On February 28, 2005, First National Bank-West Co. and its subsidiary, 1st Bank, in Evanston, Wyoming were acquired.

FDIC, FHLB AND FRB

The Federal Deposit Insurance Corporation ("FDIC") insures each bank

subsidiary's deposit accounts. All bank subsidiaries, except San Juans are members of the Federal Home Loan Bank ("FHLB") of Seattle; however, San Juans is a member of the FHLB of Topeka, which are two of twelve banks that comprise the FHLB System. All bank subsidiaries, with the exception of Mountain West, Citizens and San Juans, are members of the Federal Reserve Bank ("FRB").

BANK LOCATIONS AT DECEMBER 31, 2009

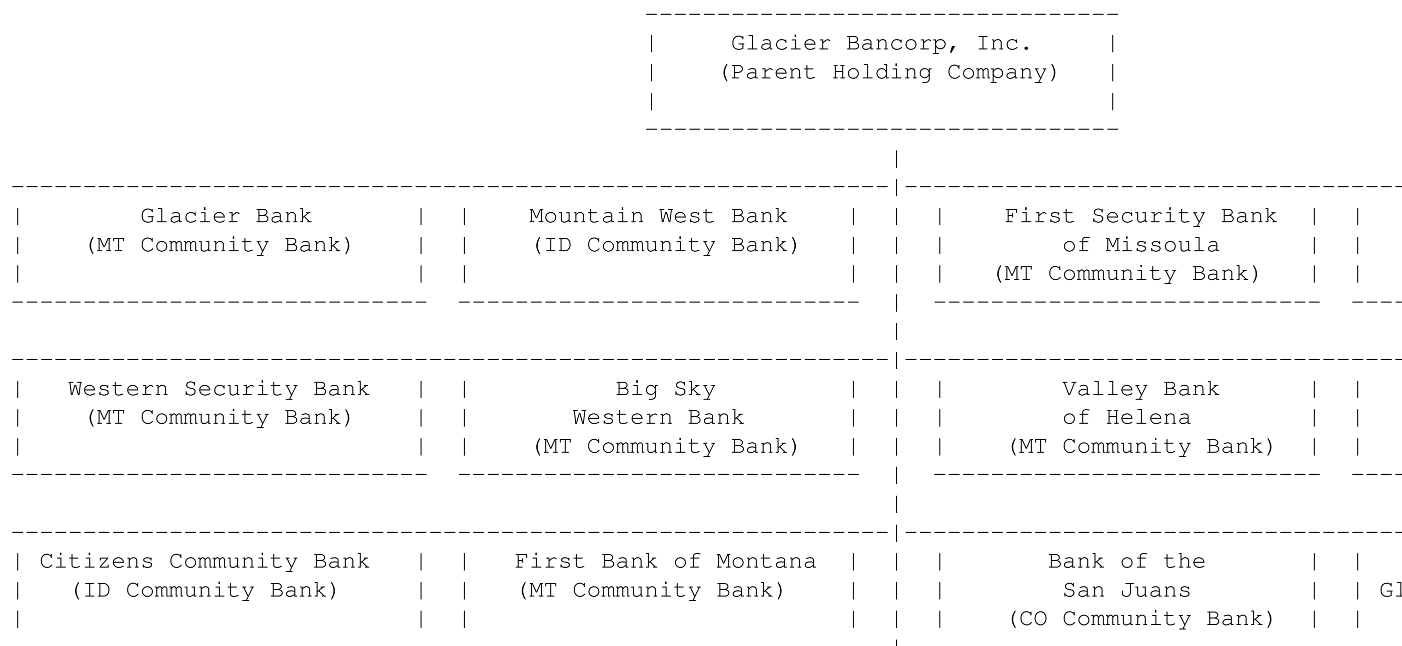
The following is a list of the parent company and bank subsidiaries' main office locations as of December 31, 2009. See "Item 2. Properties."

| | | |
|---|---|---|
| Glacier Bancorp, Inc. | 49 Commons Loop, Kalispell, MT 59901 | (406) 756-4200 |
| Glacier | 202 Main Street, Kalispell, MT 59901 | (406) 756-4200 |
| Mountain West | 125 Ironwood Drive, Coeur d'Alene, Idaho 83814 | (208) 765-0284 |
| First Security | 1704 Dearborn, Missoula, MT 59801 | (406) 728-3115 |
| 1st Bank | 1001 Main Street, Evanston, WY 82930 | (307) 789-3864 |
| Western | 2812 1st Avenue North, Billings, MT 59101 | (406) 371-8258 |
| Big Sky | 4150 Valley Commons, Bozeman, MT 59718 | (406) 587-2922 |
| Valley | 3030 North Montana Avenue, Helena, MT 59601 | (406) 495-2400 |
| First National | 245 East First Street, Powell, WY 82435 | (307) 754-2201 |
| Citizens | 280 South Arthur, Pocatello, ID 83204 | (208) 232-5373 |
| First Bank-MT | 224 West Main, Lewistown, MT 59457 | (406) 538-7471 |
| San Juans | 144 East Eighth Street, Durango, CO 81301 | (970) 247-1818 |



FINANCIAL INFORMATION ABOUT SEGMENTS

The following abbreviated organizational chart illustrates the various existing parent and subsidiary relationships at December 31, 2009:



```
                                                            |
------------------------------------------------------------|-----------------------------------
|                            |  |                            |  |  | Citizens (ID) Statutory |  |
| Glacier Capital Trust III  |  | Glacier Capital Trust IV   |  |  |         Trust I         |  |
|                            |  |                            |  |  |                         |  |
-----------------------------   -----------------------------  |  ---------------------------  ----
                                                               |
                                -------------------------------------------------------------
                                |       First Company         |     |      First Company       |
                                |   Statutory Trust 2001      |     |   Statutory Trust 2003   |
                                |                             |     |                          |
                                -----------------------------       ---------------------------
```

For information regarding the parent company, separate from the subsidiaries, see "Item 7 - Management's Discussion & Analysis" and Note 16 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data."

The business of the Company's bank subsidiaries (collectively referred to hereafter as the "Banks") consists primarily of attracting deposit accounts from the general public and originating commercial, residential, and consumer loans. The Banks' principal sources of revenue are interest on loans, loan origination fees, fees on deposit accounts and interest and dividends on investment securities. The principal sources of expenses are interest on deposits, FHLB advances, repurchase agreements, subordinated debentures, and other borrowings, as well as general and administrative expenses.

BUSINESS SEGMENT RESULTS

The Company defines operating segments and evaluates segment performance internally based on individual bank charters. Centrally provided services to the banks are allocated based on estimated usage of those services. If required, variable interest entities ("VIEs") are consolidated into the operating segment which invested into such entities. Intersegment revenues primarily represents interest income on intercompany borrowings, management fees, and data processing fees received by individual banks or the parent company. Intersegment revenues, expenses and assets are eliminated in order to report results in accordance with accounting principles generally accepted in the United States of America.

On February 1, 2009, Morgan merged into 1st Bank resulting in operations being conducted under the 1st Bank charter. On April 30, 2008, Glacier Bank of Whitefish ("Whitefish") merged into Glacier with operations conducted under the Glacier charter. The five bank subsidiaries acquired as a result of the acquisition of CDC included Citizens State Bank, First Citizens Bank of Billings, First National Bank of Lewistown, Western Bank of Chinook, and First Citizens Bank, N.A. On January 26, 2007, Citizens State Bank, First Citizens Bank of Billings, and First Citizens Bank, N.A. were merged into First Security, Western, and Glacier, respectively. On June 21, 2007, Western Bank of Chinook merged into First National Bank of Lewistown and renamed First Bank of Montana. Prior period activity of the merged banks has been combined and included in the acquiring bank subsidiaries' historical results.



| | Glacier | | | Mountain West | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2009 | 2008 | 2007 | 2009 | 2008 | 20 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Condensed Income Statements | | | | | | |
| Net interest income | $ 57,139 | 52,900 | 40,270 | 53,302 | 45,614 | 41 |
| Noninterest income | 15,387 | 13,926 | 13,473 | 27,882 | 20,353 | 19 |
| Total revenues | 72,526 | 66,826 | 53,743 | 81,184 | 65,967 | 60 |
| Provision for loan losses | (32,000) | (8,825) | (1,580) | (50,500) | (11,150) | (2 |
| Core deposit intangible expense | (330) | (392) | (415) | (184) | (196) | |
| Other noninterest expense | (27,325) | (27,074) | (25,231) | (51,525) | (41,922) | (36 |
| Pretax earnings | 12,871 | 30,535 | 26,517 | (21,025) | 12,699 | 21 |
| Income tax (expense) benefit | (2,803) | (10,910) | (9,294) | 9,764 | (3,628) | (7 |
| Net income (loss) | 10,068 | 19,625 | 17,223 | (11,261) | 9,071 | 14 |
| Average Balance Sheet Data | | | | | | |
| Total assets | $1,249,755 | 1,165,234 | 1,032,420 | 1,219,435 | 1,105,761 | 966 |
| Total loans | 967,239 | 938,824 | 797,705 | 976,132 | 897,841 | 774 |
| Total deposits | 605,928 | 546,569 | 610,869 | 709,834 | 662,505 | 693 |
| Stockholders' equity | 137,188 | 124,163 | 111,191 | 135,932 | 120,606 | 109 |
| End of Year Balance Sheet Data | | | | | | |
| Total assets | $1,325,039 | 1,250,774 | 1,101,112 | 1,172,331 | 1,226,869 | 1,038 |
| Loans, net of ALLL | 903,276 | 963,107 | 863,253 | 919,901 | 955,486 | 836 |
| Total deposits | 726,403 | 609,473 | 579,190 | 793,006 | 680,404 | 666 |
| Stockholders' equity | 139,799 | 129,890 | 115,247 | 146,720 | 124,881 | 114 |
| Performance Ratios | | | | | | |
| Return on average assets | 0.81% | 1.68% | 1.67% | -0.92% | 0.82% | |
| Return on average equity | 7.34% | 15.81% | 15.49% | -8.28% | 7.52% | 1 |
| Efficiency ratio | 38.13% | 41.10% | 47.72% | 63.69% | 63.85% | 6 |
| Regulatory Capital Ratios & Other | | | | | | |
| Tier I risk-based capital ratio | 12.33% | 11.31% | 10.75% | 13.39% | 10.62% | 1 |
| Total risk-based capital ratio | 13.61% | 12.57% | 11.92% | 14.67% | 11.88% | 1 |
| Leverage capital ratio | 10.09% | 9.79% | 9.62% | 10.98% | 8.68% | |
| Full time equivalent employees | 274 | 283 | 274 | 376 | 393 | |
| Locations | 17 | 17 | 16 | 29 | 29 | |

| | 1st Bank | | | Western | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 200 |
| Condensed Income Statements | | | | | | | |
| Net interest income | $ 24,057 | 22,695 | 20,135 | 21,233 | 20,713 | 19,043 | 15,7 |
| Noninterest income | 4,628 | 4,728 | 4,212 | 8,631 | 3,306 | 8,896 | 3,5 |
| Total revenues | 28,685 | 27,423 | 24,347 | 29,864 | 24,019 | 27,939 | 19,2 |
| Provision for loan losses | (10,800) | (2,012) | (630) | (3,200) | (540) | -- | (9,2 |
| Core deposit intangible expense | (652) | (712) | (688) | (571) | (623) | (675) | ( |
| Other noninterest expense | (14,943) | (14,143) | (13,015) | (16,342) | (16,151) | (16,050) | (8,4 |
| Pretax earnings | 2,290 | 10,556 | 10,014 | 9,751 | 6,705 | 11,214 | 1,6 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Income tax (expense) benefit | (309) | (3,631) | (3,482) | (2,813) | (1,818) | (4,129) | (1 |
| Net income (loss) | 1,981 | 6,925 | 6,532 | 6,938 | 4,887 | 7,085 | 1,4 |
| Average Balance Sheet Data | | | | | | | |
| Total assets | $606,649 | 563,588 | 510,449 | 604,020 | 566,364 | 545,074 | 340,8 |
| Total loans | 312,372 | 315,007 | 255,401 | 344,456 | 347,075 | 322,845 | 287,3 |
| Total deposits | 414,059 | 416,173 | 406,300 | 410,490 | 342,793 | 373,682 | 178,4 |
| Stockholders' equity | 97,859 | 87,948 | 79,942 | 87,837 | 83,915 | 85,581 | 45,6 |
| End of Year Balance Sheet Data | | | | | | | |
| Total assets | $650,072 | 566,869 | 551,327 | 624,077 | 609,868 | 508,915 | 368,5 |
| Loans, net of ALLL | 286,019 | 320,370 | 298,800 | 314,613 | 354,199 | 321,533 | 260,4 |
| Total deposits | 421,271 | 418,231 | 439,281 | 504,619 | 357,729 | 345,273 | 184,2 |
| Stockholders' equity | 101,789 | 95,200 | 87,523 | 85,259 | 83,843 | 83,226 | 51,6 |
| Performance Ratios | | | | | | | |
| Return on average assets | 0.33% | 1.23% | 1.28% | 1.15% | 0.86% | 1.30% | 0. |
| Return on average equity | 2.02% | 7.87% | 8.17% | 7.90% | 5.82% | 8.28% | 3. |
| Efficiency ratio | 54.37% | 54.17% | 56.28% | 56.63% | 69.84% | 59.86% | 43. |
| Regulatory Capital Ratios & Other | | | | | | | |
| Tier I risk-based capital ratio | 14.99% | 12.58% | 11.27% | 14.67% | 13.26% | 14.22% | 16. |
| Total risk-based capital ratio | 16.26% | 13.83% | 12.50% | 15.93% | 14.52% | 15.48% | 17. |
| Leverage capital ratio | 9.74% | 8.08% | 7.41% | 10.19% | 10.71% | 11.18% | 13. |
| Full time equivalent employees | 141 | 148 | 153 | 161 | 161 | 161 | |
| Locations | 12 | 12 | 11 | 8 | 8 | 8 | |

7

| | Valley | | | First National | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2009 | 2008 | 2007 | 2009(1) | 2008 | 2007 | 2009 |
| Condensed Income Statements | | | | | | | |
| Net interest income | $ 14,051 | 12,719 | 10,641 | 3,964 | -- | -- | 10,437 |
| Noninterest income | 5,717 | 4,673 | 4,807 | 4,187 | -- | -- | 4,235 |
| Total revenues | 19,768 | 17,392 | 15,448 | 8,151 | -- | -- | 14,672 |
| Provision for loan losses | (1,200) | (810) | (405) | (1,683) | -- | -- | (2,800) |
| Core deposit intangible expense | (42) | (42) | (42) | (144) | -- | -- | (111) |
| Other noninterest expense | (9,229) | (8,770) | (8,335) | (2,011) | -- | -- | (7,992) |
| Pretax earnings | 9,297 | 7,770 | 6,666 | 4,313 | -- | -- | 3,769 |
| Income tax (expense) benefit | (2,740) | (2,251) | (1,955) | (230) | -- | -- | (1,332) |
| Net income (loss) | 6,557 | 5,519 | 4,711 | 4,083 | -- | -- | 2,437 |
| Average Balance Sheet Data | | | | | | | |
| Total assets | $312,273 | 302,754 | 277,569 | 72,641 | -- | -- | 234,382 |
| Total loans | 195,007 | 199,080 | 190,718 | 39,416 | -- | -- | 168,675 |
| Total deposits | 196,506 | 186,004 | 189,547 | 60,832 | -- | -- | 146,780 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Stockholders' equity | 34,246 | 29,487 | 25,951 | 7,870 | -- | -- | 30,814 |
| End of Year Balance Sheet Data | | | | | | | |
| Total assets | $351,228 | 298,392 | 283,155 | 295,953 | -- | -- | 241,807 |
| Loans, net of ALLL | 182,916 | 195,504 | 194,912 | 151,379 | -- | -- | 161,182 |
| Total deposits | 211,935 | 185,505 | 187,657 | 247,256 | -- | -- | 159,763 |
| Stockholders' equity | 30,585 | 31,483 | 27,323 | 31,364 | -- | -- | 31,969 |
| Performance Ratios | | | | | | | |
| Return on average assets | 2.10% | 1.82% | 1.70% | 5.62% | -- | -- | 1.04% |
| Return on average equity | 19.15% | 18.72% | 18.15% | 51.88% | -- | -- | 7.91% |
| Efficiency ratio | 46.90% | 50.67% | 54.23% | 26.44% | -- | -- | 55.23% |
| Regulatory Capital Ratios & Other | | | | | | | |
| Tier I risk-based capital ratio | 13.11% | 13.65% | 11.68% | 15.98% | -- | -- | 11.32% |
| Total risk-based capital ratio | 14.37% | 14.91% | 12.93% | 16.89% | -- | -- | 12.59% |
| Leverage capital ratio | 8.57% | 9.11% | 9.03% | 10.38% | -- | -- | 9.62% |
| Full time equivalent employees | 85 | 83 | 80 | 75 | -- | -- | 70 |
| Locations | 6 | 6 | 6 | 3 | -- | -- | 6 |

| | First Bank - MT | | | San Juans | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2009 | 2008 | 2007 | 2009 | 2008(2) | 2007 | 2009 |
| Condensed Income Statements | | | | | | | |
| Net interest income | $ 7,900 | 6,676 | 6,308 | 8,021 | 575 | -- | (6,265 |
| Noninterest income | 929 | 768 | 736 | 1,329 | 85 | -- | 52,466 |
| Total revenues | 8,829 | 7,444 | 7,044 | 9,350 | 660 | -- | 46,201 |
| Provision for loan losses | (985) | (390) | (20) | (1,800) | (53) | -- | -- |
| Core deposit intangible expense | (358) | (405) | (451) | (233) | (19) | -- | -- |
| Other noninterest expense | (3,189) | (3,083) | (3,426) | (5,435) | (397) | -- | (13,769 |
| Pretax earnings | 4,297 | 3,566 | 3,147 | 1,882 | 191 | -- | 32,432 |
| Income tax (expense) benefit | (1,426) | (1,279) | (1,395) | (551) | (75) | -- | 1,942 |
| Net income (loss) | 2,871 | 2,287 | 1,752 | 1,331 | 116 | -- | 34,374 |
| Average Balance Sheet Data | | | | | | | |
| Total assets | $179,885 | 152,354 | 142,401 | 175,107 | 12,983 | -- | 824,527 |
| Total loans | 119,840 | 109,706 | 98,402 | 149,665 | 12,172 | -- | -- |
| Total deposits | 121,770 | 109,067 | 107,491 | 140,528 | 11,292 | -- | -- |
| Stockholders' equity | 30,955 | 28,172 | 26,557 | 23,396 | 1,171 | -- | 691,922 |
| End of Year Balance Sheet Data | | | | | | | |
| Total assets | $217,379 | 154,645 | 149,483 | 184,528 | 165,784 | -- | 832,916 |
| Loans, net of ALLL | 114,113 | 114,177 | 98,897 | 145,015 | 142,114 | -- | -- |
| Total deposits | 143,552 | 113,531 | 113,692 | 148,474 | 143,056 | -- | -- |
| Stockholders' equity | 32,627 | 29,329 | 26,941 | 25,410 | 21,207 | -- | 685,890 |
| Performance Ratios | | | | | | | |
| Return on average assets | 1.60% | 1.50% | 1.23% | 0.76% | 0.89% | -- | |
| Return on average equity | 9.27% | 8.12% | 6.60% | 5.69% | 9.91% | -- | |
| Efficiency ratio | 40.17% | 46.86% | 55.04% | 60.62% | 63.03% | -- | |
| Regulatory Capital Ratios & Other | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Tier I risk-based capital ratio | 12.73% | 11.70% | 10.79% | 11.11% | 9.26% | -- | |
| Total risk-based capital ratio | 13.99% | 12.95% | 12.04% | 12.37% | 10.51% | -- | |
| Leverage capital ratio | 9.19% | 10.17% | 9.26% | 10.33% | 9.66% | -- | |
| Full time equivalent employees | 40 | 37 | 35 | 41 | 31 | -- | 119 |
| Locations | 3 | 3 | 3 | 3 | 3 | -- | 1 |

8

| (Dollars in thousands) | Eliminations 2009 | Eliminations 2008 | Eliminations 2007 | Consolidation 2009 | Consolidation 2008 | Consolidation 2 |
|---|---|---|---|---|---|---|
| Condensed Income Statements | | | | | | |
| Net interest income | $ -- | -- | -- | 245,327 | 212,613 | 18 |
| Noninterest income | (50,584) | (84,146) | (84,169) | 86,474 | 61,034 | 6 |
| Total revenues | (50,584) | (84,146) | (84,169) | 331,801 | 273,647 | 24 |
| Provision for loan losses | -- | -- | -- | (124,618) | (28,480) | ( |
| Core deposit intangible expense | -- | -- | -- | (3,116) | (3,051) | ( |
| Other noninterest expense | 13,396 | 13,031 | 11,710 | (165,702) | (142,858) | (13 |
| Pretax earnings | (37,188) | (71,115) | (72,459) | 38,365 | 99,258 | 10 |
| Income tax (expense) benefit | -- | -- | -- | (3,991) | (33,601) | (3 |
| Net income (loss) | (37,188) | (71,115) | (72,459) | 34,374 | 65,657 | 6 |
| Average Balance Sheet Data | | | | | | |
| Total assets | $(1,043,687) | (918,204) | (766,262) | 5,691,929 | 5,029,403 | 4,60 |
| Total loans | -- | -- | (3,669) | 4,140,541 | 3,808,421 | 3,36 |
| Total deposits | (59,234) | (28,155) | (23,470) | 3,493,607 | 3,100,505 | 3,26 |
| Stockholders' equity | (753,933) | (655,472) | (606,824) | 691,922 | 564,785 | 49 |
| End of Year Balance Sheet Data | | | | | | |
| Total assets | $ (962,778) | (1,038,354) | (767,384) | 6,191,795 | 5,553,970 | 4,81 |
| Loans, net of ALLL | -- | -- | -- | 3,987,318 | 4,053,454 | 3,55 |
| Total deposits | (29,263) | (106,457) | (35,204) | 4,100,152 | 3,262,475 | 3,18 |
| Stockholders' equity | (797,180) | (702,183) | (627,332) | 685,890 | 676,940 | 52 |
| Performance Ratios | | | | | | |
| Return on average assets | | | | 0.60% | 1.31% | |
| Return on average equity | | | | 4.97% | 11.63% | |
| Efficiency ratio | | | | 50.88% | 53.32% | |
| Regulatory Capital Ratios & Other | | | | | | |
| Tier I risk-based capital ratio | | | | 14.02% | 14.30% | |
| Total risk-based capital ratio | | | | 15.29% | 15.55% | |
| Leverage capital ratio | | | | 11.20% | 12.38% | |
| Full time equivalent employees | | | | 1,643 | 1,571 | |
| Locations | | | | 106 | 101 | |

(1) The average balance sheet data is based on daily averages for the entire year, with First National being acquired October 2, 2009.

(2) The average balance sheet data is based on daily averages for the entire year, with San Juans being acquired December 1, 2008.

INTERNET ACCESS

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

MARKET AREA

The Company has 106 locations, of which 9 are loan or administration offices, in 35 counties within 6 states including Montana, Idaho, Wyoming, Colorado, Utah, and Washington. The Company has 53 locations in Montana. In Idaho there are 30 locations. In Wyoming, there are 13 locations. In Utah, there are 4 locations. In Washington, there are 3 locations. In Colorado, there are 3 locations.

The market area's economic base primarily focuses on tourism, construction, manufacturing, service industry, and health care. The tourism industry is highly influenced by two national parks, several ski resorts, large lakes, and rural scenic areas. Construction development is a result of the high population growth that has occurred in the market areas, in particular Idaho and western Montana.

COMPETITION

Based on the FDIC summary of deposits survey as of June 30, 2009, the Company has approximately 20 percent of the total FDIC insured deposits in the 13 counties that it services in Montana. In Idaho, the Company has approximately 6 percent of the deposits in the 9 counties that it services. In Wyoming, the Company has 22 percent of the deposits in the 6 counties it services. In Colorado, the Company has 10 percent of the deposits in the 2 counties it serves. In Utah, the Company has 3 percent of the deposits in the 3 counties it services.



There are a large number of depository institutions including savings banks, commercial banks, and credit unions in the counties in which the Company has offices. The Banks, like other depository institutions, are operating in a rapidly changing environment. Non-depository financial service institutions, primarily in the securities and insurance industries, have become competitors for retail savings and investment funds. Mortgage banking/brokerage firms are actively competing for residential mortgage business. In addition to offering competitive interest rates, the principal methods used by banking institutions to attract deposits include the offering of a variety of services including on-line banking and convenient office locations and business hours. The primary factors in competing for loans are interest rates and rate adjustment provisions, loan maturities, loan fees, and the quality of service to borrowers and brokers.

## DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

### AVERAGE BALANCE SHEET

The following three-year schedule provides (i) the total dollar amount of interest and dividend income of the Company for earning assets and the resultant average yield; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest and dividend income and interest rate spread; and (iv) net interest margin and net interest margin tax-equivalent; and (v) return on average assets and return on average equity.

| | Year ended 12/31/2009 | | | Year ended 12/31/2008 | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Average Balance | Interest and Dividends | Average Yield/ Rate | Average Balance | Interest and Dividends | Avera Yiel Rat |
| ASSETS: | | | | | | |
| Residential real estate loans | $ 829,348 | $ 54,498 | 6.57% | $ 746,135 | $ 51,166 | 6.86 |
| Commercial loans | 2,608,961 | 151,580 | 5.81% | 2,390,990 | 165,119 | 6.91 |
| Consumer and other loans | 702,232 | 44,844 | 6.39% | 671,296 | 47,725 | 7.11 |
| Total loans | 4,140,541 | 250,922 | 6.06% | 3,808,421 | 264,010 | 6.93 |
| Tax-exempt investment securities (1) | 445,063 | 22,196 | 4.99% | 282,884 | 13,901 | 4.91 |
| Taxable investment securities | 707,062 | 29,376 | 4.15% | 555,955 | 25,074 | 4.51 |
| Total earning assets | 5,292,666 | 302,494 | 5.72% | 4,647,260 | 302,985 | 6.52 |
| Goodwill and intangibles | 158,896 | | | 152,822 | | |
| Non-earning assets | 240,367 | | | 229,321 | | |
| Total assets | $5,691,929 | | | $5,029,403 | | |
| LIABILITIES: | | | | | | |
| NOW accounts | $ 572,260 | $ 2,275 | 0.40% | $ 467,374 | $ 3,014 | 0.64 |
| Savings accounts | 303,794 | 947 | 0.31% | 272,673 | 1,865 | 0.68 |
| Money market demand accounts | 768,939 | 8,436 | 1.10% | 760,599 | 17,234 | 2.27 |
| Certificate accounts | 960,403 | 24,719 | 2.57% | 853,076 | 32,634 | 3.83 |
| Wholesale deposits (2) | 133,083 | 2,052 | 1.54% | 7,704 | 265 | 3.44 |
| Advances from FHLB | 473,038 | 7,952 | 1.68% | 566,933 | 15,355 | 2.71 |
| Securities sold under agreements to repurchase and other borrowed funds | 995,006 | 10,786 | 1.08% | 752,958 | 20,005 | 2.66 |
| Total interest bearing liabilities | 4,206,523 | 57,167 | 1.36% | 3,681,317 | 90,372 | 2.46 |
| Non-interest bearing deposits | 755,128 | | | 739,079 | | |
| Other liabilities | 38,356 | | | 44,222 | | |
| Total liabilities | 5,000,007 | | | 4,464,618 | | |

| | | | | | |
|---|---|---|---|---|---|
| STOCKHOLDERS' EQUITY: | | | | | |
| Common stock | 615 | | | 548 | | |
| Paid-in capital | 495,340 | | | 393,158 | | |
| Retained earnings | 193,973 | | | 171,385 | | |
| Accumulated other comprehensive income (loss) | 1,994 | | | (306) | | |
| Total stockholders' equity | 691,922 | | | 564,785 | | |
| Total liabilities and stockholders' equity | $5,691,929 | | | $5,029,403 | | |
| NET INTEREST INCOME | | $245,327 | | | $212,613 | |
| NET INTEREST SPREAD | | | 4.36% | | | 4.06 |
| NET INTEREST MARGIN | | | 4.64% | | | 4.58 |
| NET INTEREST MARGIN (TAX-EQUIVALENT) | | | 4.82% | | | 4.70 |

(1) Without tax effect on non-taxable securities income of $9,827,000, $6,155,000 and $5,944,000 for the years ended December 31, 2009, 2008, and 2007, respectively.

(2) Wholesale deposits include brokered deposits classified as NOW, money market demand, and certificate accounts.

11

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 rates 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.

| | Years ended December 31, 2009 vs. 2008 Increase (Decrease) Due to: | | | Years ended December 31, 2008 vs. 2007 Increase (Decrease) Due to: | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Volume | Rate | Net | Volume | Rate | Net |
| INTEREST INCOME: | | | | | | |
| Residential real estate loans | $ 5,706 | $ (2,374) | $ 3,332 | $(3,936) | $ (4,562) | $ (8,498) |
| Commercial loans | 15,053 | (28,592) | (13,539) | 34,934 | (27,459) | 7,475 |
| Consumer and other loans | 2,199 | (5,080) | (2,881) | 5,339 | (5,719) | (380) |
| Investment securities | 14,556 | (1,959) | 12,597 | (377) | 5 | (372) |
| Total interest income | 37,514 | (38,005) | (491) | 35,960 | (37,735) | (1,775) |
| INTEREST EXPENSE: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| NOW accounts | 676 | (1,415) | (739) | 62 | (1,756) | (1,694) |
| Savings accounts | 213 | (1,130) | (917) | 45 | (860) | (815) |
| Money market demand accounts | 188 | (8,987) | (8,799) | 202 | (10,215) | (10,013) |
| Certificate accounts | 4,106 | (12,021) | (7,915) | (6,911) | (7,278) | (14,189) |
| Wholesale deposits | 4,310 | (2,523) | 1,787 | 360 | (96) | 264 |
| FHLB advances | (2,544) | (4,859) | (7,403) | 9,131 | (12,673) | (3,542) |
| Repurchase agreements and other borrowed funds | 6,432 | (15,651) | (9,219) | 17,303 | (18,233) | (930) |
| Total Interest Expense | 13,381 | (46,586) | (33,205) | 20,192 | (51,111) | (30,919) |
| NET INTEREST INCOME | $24,133 | $ 8,581 | $ 32,714 | $15,768 | $ 13,376 | $ 29,144 |

Net interest income increased $33 million in 2009 over 2008. The increase was primarily due to increases in loan and investment volumes and decrease in deposit and borrowing rates which combined outpaced the decrease in loan rates. For additional information see "Item 7 - Management's Discussion and Analysis".

## INVESTMENT ACTIVITIES

It has generally been the Company's policy to maintain a liquid portfolio above policy limits. The Company's investment securities are generally classified as available-for-sale and are carried at estimated fair value with unrealized gains or losses, net of tax, reflected as an adjustment to stockholders' equity. The Company uses the federal statutory rate of 35 percent in calculating its tax-equivalent yield. Approximately $467 million of the investment portfolio is comprised of tax-exempt investments which is an increase of $49 million from the prior year.

For information about the Company's equity investment in the stock of the FHLB, see "Sources of Funds - Advances and Other Borrowings".

For additional investment activity information, see "Item 7 - Management's Discussion & Analysis" and Note 3 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data".

12

## LENDING ACTIVITY

### GENERAL

The Banks focus their lending activity primarily on the following types of loans: 1) first-mortgage, conventional loans secured by residential properties, particularly single-family, 2) installment lending for consumer purposes (e.g., auto, home equity, etc.), and 3) commercial lending that concentrates on targeted businesses. "Item 7 - Management's Discussion & Analysis" and Note 4 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data" provide more information about the loan portfolio.

### LOAN PORTFOLIO COMPOSITION

The following table summarizes the Company's loan portfolio:

| | AT | At | At |
|---|---|---|---|

| (Dollars in thousands) | 12/31/2009 AMOUNT | 12/31/2009 PERCENT | 12/31/2008 Amount | 12/31/2008 Percent | 12/31/2007 Amount | 12/31/2007 Percent | 1 Amou |
|---|---|---|---|---|---|---|---|
| REAL ESTATE LOANS: | | | | | | | |
| Residential | $ 746,050 | 18.71% | $ 786,869 | 19.41% | $ 689,238 | 19.38% | $ 758 |
| Held for sale | 66,330 | 1.66% | 54,976 | 1.36% | 40,123 | 1.13% | 35 |
| Total | 812,380 | 20.37% | 841,845 | 20.77% | 729,361 | 20.51% | 794 |
| COMMERCIAL LOANS: | | | | | | | |
| Real estate | 1,900,438 | 47.66% | 1,935,341 | 47.74% | 1,617,076 | 45.46% | 1,165 |
| Other commercial | 724,966 | 18.18% | 645,033 | 15.91% | 636,351 | 17.89% | 691 |
| Total | 2,625,404 | 65.84% | 2,580,374 | 63.65% | 2,253,427 | 63.35% | 1,857 |
| CONSUMER AND OTHER LOANS: | | | | | | | |
| Consumer | 201,001 | 5.04% | 208,166 | 5.14% | 206,724 | 5.81% | 218 |
| Home equity | 501,920 | 12.59% | 507,831 | 12.53% | 432,217 | 12.15% | 356 |
| Total | 702,921 | 17.63% | 715,997 | 17.67% | 638,941 | 17.96% | 575 |
| Net deferred loan fees, premiums and discounts | (10,460) | -0.26% | (8,023) | -0.20% | (10,194) | -0.29% | (11 |
| LOANS RECEIVABLE, GROSS | 4,130,245 | 103.58% | 4,130,193 | 101.89% | 3,611,535 | 101.53% | 3,214 |
| Allowance for loan and lease losses | (142,927) | -3.58% | (76,739) | -1.89% | (54,413) | -1.53% | (49 |
| LOANS RECEIVABLE, NET | $3,987,318 | 100.00% | $4,053,454 | 100.00% | $3,557,122 | 100.00% | $3,165 |

LOAN PORTFOLIO MATURITIES OR REPRICING TERM

The stated maturities or first repricing term (if applicable) for the loan portfolio at December 31, 2009 was as follows:

| (Dollars in thousands) | Residential Real Estate | Commercial | Consumer and Other | Totals |
|---|---|---|---|---|
| Variable rate maturing or repricing in: | | | | |
| One year or less | $207,181 | 939,514 | 290,003 | 1,436,698 |
| One to five years | 177,185 | 779,525 | 49,569 | 1,006,279 |
| Thereafter | 10,932 | 115,084 | 2,054 | 128,070 |
| Fixed rate maturing or repricing in: | | | | |
| One year or less | 261,162 | 281,282 | 146,013 | 688,457 |
| One to five years | 130,329 | 328,365 | 193,475 | 652,169 |
| Thereafter | 25,591 | 181,634 | 21,807 | 229,032 |
| Totals | $812,380 | 2,625,404 | 702,921 | 4,140,705 |

RESIDENTIAL REAL ESTATE LENDING

The Company's lending activities consist of the origination of both construction and permanent loans on residential real estate loans. The Company actively solicits residential real estate loan applications from real estate brokers, contractors, existing customers, customer referrals, and walk-ins to their offices. The Company's lending policies generally limit the maximum loan-to-value ratio on residential mortgage loans to 80 percent of the lesser of the appraised value or purchase price or above 80 percent of the loan if insured by a private mortgage insurance company. The Company also provides interim construction financing for single-family dwellings. These loans are supported by a term take out commitment.

CONSUMER LAND OR LOT LOANS

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

UNIMPROVED LAND AND LAND DEVELOPMENT LOANS

Where real estate market conditions warrant, the Company makes land acquisition and development loans on properties intended for residential and commercial use. These loans are generally made for a term of 18 months to two years and secured by the developed property with a loan-to-value not to exceed the lesser of 75 percent of cost or 65 percent of the appraised discounted bulk sale value upon completion of the improvements. The loans are made to borrowers with real estate development experience and appropriate financial strength. Generally it is required that a certain percentage of the development be pre-sold or that construction and term take out commitments are in place prior to funding the loan.

RESIDENTIAL BUILDER GUIDANCE LINES

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

COMMERCIAL REAL ESTATE LOANS

Loans are made to purchase, construct and finance commercial real estate properties. These loans are generally made to borrowers who own and will occupy the property. Loans to finance investment or income properties are made, but require additional equity and a higher debt service coverage margin commensurate with the specific property and projected income.

CONSUMER LENDING

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

property.



LOAN PORTFOLIO BY BANK SUBSIDIARY AND REGULATORY CLASSIFICATION

The following tables summarize selected information on the Company's loan portfolio:

LOANS RECEIVABLE, GROSS BY BANK

| | December 31, | | | |
|---|---|---|---|---|
| (Dollars in thousands) | 2009 | 2008 | $ Change | % Change |
| Glacier | $ 942,254 | 982,098 | (39,844) | -4% |
| Mountain West | 957,451 | 971,468 | (14,017) | -1% |
| First Security | 566,713 | 573,228 | (6,515) | -1% |
| 1st Bank | 296,913 | 326,381 | (29,468) | -9% |
| Western | 323,375 | 361,261 | (37,886) | -10% |
| Big Sky | 270,970 | 293,626 | (22,656) | -8% |
| Valley | 187,283 | 199,085 | (11,802) | -6% |
| First National | 153,058 | -- | 153,058 | n/m |
| Citizens | 166,049 | 162,133 | 3,916 | 2% |
| First Bank-MT | 117,017 | 116,122 | 895 | 1% |
| San Juans | 149,162 | 144,791 | 4,371 | 3% |
| Total | $4,130,245 | 4,130,193 | 52 | 0% |

LAND, LOT AND OTHER CONSTRUCTION LOANS BY BANK

| | December 31, | | | |
|---|---|---|---|---|
| (Dollars in thousands) | 2009 | 2008 | $ Change | % Change |
| Glacier | $165,734 | 204,479 | (38,745) | -19% |
| Mountain West | 217,078 | 249,916 | (32,838) | -13% |
| First Security | 71,404 | 95,960 | (24,556) | -26% |
| 1st Bank | 36,888 | 41,667 | (4,779) | -11% |
| Western | 32,045 | 45,457 | (13,412) | -30% |
| Big Sky | 71,365 | 81,869 | (10,504) | -13% |
| Valley | 14,704 | 17,918 | (3,214) | -18% |
| First National | 10,247 | -- | 10,247 | n/m |
| Citizens | 13,263 | 14,827 | (1,564) | -11% |
| First Bank-MT | 1,010 | 4,507 | (3,497) | -78% |
| San Juans | 39,621 | 36,793 | 2,828 | 8% |
| Total | $673,359 | 793,393 | (120,034) | -15% |

LAND, LOT AND OTHER CONSTRUCTION LOANS AT 12/31/09 BY BANK, BY TYPE

| (Dollars in thousands) | Land Development | Consumer Land or Lot | Unimproved Land | Developed Lots for Operative Builders | Commercial Developed Lot |
|---|---|---|---|---|---|
| Glacier | $ 80,881 | 33,025 | 29,850 | 8,625 | 13,353 |
| Mountain West | 55,908 | 74,914 | 29,684 | 31,655 | 10,664 |
| First Security | 30,569 | 7,208 | 26,372 | 4,525 | 518 |
| 1st Bank | 14,447 | 12,223 | 4,448 | 225 | 2,513 |
| Western | 16,309 | 7,823 | 5,159 | 587 | 1,914 |
| Big Sky | 22,909 | 18,882 | 9,925 | 1,992 | 8,420 |
| Valley | 2,597 | 5,867 | 4,513 | 159 | 349 |
| First National | 1,961 | 2,934 | 733 | 250 | 2,245 |
| Citizens | 2,868 | 2,633 | 2,652 | 506 | 655 |
| First Bank-MT | -- | 65 | 820 | -- | -- |
| San Juans | 417 | 26,838 | 45 | -- | 3,878 |
| Total | $228,866 | 192,412 | 114,201 | 48,524 | 44,509 |

15

RESIDENTIAL CONSTRUCTION LOANS BY BANK, BY TYPE

| (Dollars in thousands) | December 31, 2009 | December 31, 2008 | $ Change | % Change | Custom and Owner Occupied 12/31/2009 | Pre-Sold and Spec 12/31/2009 |
|---|---|---|---|---|---|---|
| Glacier | $ 57,183 | 84,161 | (26,978) | -32% | $ 9,762 | 47,421 |
| Mountain West | 57,437 | 100,289 | (42,852) | -43% | 23,606 | 33,831 |
| First Security | 19,664 | 19,910 | (246) | -1% | 9,985 | 9,679 |
| 1st Bank | 17,633 | 30,742 | (13,109) | -43% | 11,010 | 6,623 |
| Western | 2,245 | 6,993 | (4,748) | -68% | 1,830 | 415 |
| Big Sky | 20,679 | 28,356 | (7,677) | -27% | 3,169 | 17,510 |
| Valley | 5,170 | 8,265 | (3,095) | -37% | 4,222 | 948 |
| First National | 2,612 | -- | 2,612 | n/m | 1,505 | 1,107 |
| Citizens | 13,211 | 17,909 | (4,698) | -26% | 6,619 | 6,592 |
| First Bank-MT | 234 | 1,384 | (1,150) | -83% | 174 | 60 |
| San Juans | 13,811 | 11,425 | 2,386 | 21% | 6,753 | 7,058 |
| Total | $209,879 | 309,434 | (99,555) | -32% | $78,635 | 131,244 |

SINGLE FAMILY RESIDENTIAL LOANS BY BANK, BY TYPE

| (Dollars in thousands) | December 31, 2009 | December 31, 2008 | $ Change | % Change | 1st Lien 12/31/2009 | Junior Lien 12/31/2009 |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| Glacier | $204,789 | 198,654 | 6,135 | 3% | $183,647 | 21,142 |
| Mountain West | 278,158 | 274,119 | 4,039 | 1% | 236,962 | 41,196 |
| First Security | 82,141 | 79,107 | 3,034 | 4% | 68,266 | 13,875 |
| 1st Bank | 65,555 | 62,954 | 2,601 | 4% | 60,566 | 4,989 |
| Western | 50,502 | 56,789 | (6,287) | -11% | 48,099 | 2,403 |
| Big Sky | 33,308 | 29,493 | 3,815 | 13% | 29,482 | 3,826 |
| Valley | 66,644 | 70,935 | (4,291) | -6% | 54,255 | 12,389 |
| First National | 19,239 | -- | 19,239 | n/m | 16,150 | 3,089 |
| Citizens | 20,937 | 18,903 | 2,034 | 11% | 18,695 | 2,242 |
| First Bank-MT | 10,003 | 10,341 | (338) | -3% | 8,536 | 1,467 |
| San Juans | 22,811 | 23,605 | (794) | -3% | 21,305 | 1,506 |
| Total | $854,087 | 824,900 | 29,187 | 4% | $745,963 | 108,124 |

COMMERCIAL REAL ESTATE LOANS BY BANK, BY TYPE

| | December 31, | | | | Owner Occupied | Non-Owner Occupied |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2009 | 2008 | $ Change | % Change | 12/31/2009 | 12/31/2009 |
| Glacier | $ 232,552 | 223,449 | 9,103 | 4% | $117,243 | 115,309 |
| Mountain West | 230,383 | 180,215 | 50,168 | 28% | 164,625 | 65,758 |
| First Security | 224,425 | 192,352 | 32,073 | 17% | 150,733 | 73,692 |
| 1st Bank | 64,008 | 67,249 | (3,241) | -5% | 54,852 | 9,156 |
| Western | 107,173 | 98,290 | 8,883 | 9% | 54,113 | 53,060 |
| Big Sky | 82,303 | 80,053 | 2,250 | 3% | 50,699 | 31,604 |
| Valley | 48,144 | 46,850 | 1,294 | 3% | 31,353 | 16,791 |
| First National | 26,703 | -- | 26,703 | n/m | 18,329 | 8,374 |
| Citizens | 55,660 | 53,813 | 1,847 | 3% | 42,786 | 12,874 |
| First Bank-MT | 18,827 | 17,397 | 1,430 | 8% | 12,597 | 6,230 |
| San Juans | 47,838 | 50,925 | (3,087) | -6% | 27,306 | 20,532 |
| Total | $1,138,016 | 1,010,593 | 127,423 | 13% | $724,636 | 413,380 |



CONSUMER AND OTHER LOANS BY BANK, BY TYPE

| | December 31, | | | | Home Equity Line of Credit | Other Consumer |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2009 | 2008 | $ Change | % Change | 12/31/2009 | 12/31/2009 |
| Glacier | $162,723 | 170,713 | (7,990) | -5% | $145,377 | 17,346 |
| Mountain West | 71,702 | 72,584 | (882) | -1% | 61,896 | 9,806 |
| First Security | 78,345 | 85,646 | (7,301) | -9% | 51,110 | 27,235 |
| 1st Bank | 46,455 | 50,723 | (4,268) | -8% | 17,575 | 28,880 |
| Western | 48,946 | 55,714 | (6,768) | -12% | 33,679 | 15,267 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Big Sky | 28,903 | 33,147 | (4,244) | -13% | 25,569 | 3,334 |
| Valley | 24,625 | 25,802 | (1,177) | -5% | 15,938 | 8,687 |
| First National | 27,320 | -- | 27,320 | n/m | 16,803 | 10,517 |
| Citizens | 29,253 | 28,633 | 620 | 2% | 22,872 | 6,381 |
| First Bank-MT | 7,650 | 7,251 | 399 | 6% | 3,777 | 3,873 |
| San Juans | 14,189 | 12,204 | 1,985 | 16% | 12,439 | 1,750 |
| Total | $540,111 | 542,417 | (2,306) | 0% | $407,035 | 133,076 |

n/m - not measurable

CREDIT RISK MANAGEMENT

The Company's credit risk management includes stringent credit policies, concentration limits, individual loan approval limits and committee approval of larger loan requests. Management practices also include regular internal and external credit examinations and an independent stress testing of the land acquisition/development and commercial real estate portfolios. On a quarterly basis, both the Banks and parent company management review loans experiencing deterioration of credit quality, including a review of the acquisition and development loans, and spec/pre-sold home loans. A review of loans by concentration limits is performed on a quarterly basis. Federal and state regulatory safety and soundness examinations are conducted annually at Glacier, Mountain West, First Security, 1st Bank and Western and every eighteen months for all other bank subsidiaries.

LOAN APPROVAL LIMITS

Individual loan approval limits have been established for each lender based on the loan types and experience of the individual. Each bank subsidiary has an Officer Loan Committee consisting of senior lenders and members of senior management. The Officer Loan Committee for each bank has approval authority up to its respective bank's Board of Directors loan approval authority. The Banks' Board of Directors approval authority is $1,000,000 at First National and $2,000,000 at all other banks. Loans over these limits up to $10,000,000 are subject to approval by the Executive Loan Committee consisting of the Banks' senior loan officers and the Company's Credit Administrator. Loans greater than $10,000,000 are subject to approval by the Company's Board of Directors. Under banking laws, loans to one borrower and related entities are limited to a set percentage of the unimpaired capital and surplus of each bank subsidiary.

LOAN PURCHASES AND SALES

Fixed-rate, long-term mortgage loans are generally sold in the secondary market. The Company is active in the secondary market, primarily through the origination of conventional, FHA and VA residential mortgages. The sale of loans in the secondary mortgage market reduces the Company's risk of holding long-term, fixed-rate loans during periods of rising rates. The sale of loans also allows the Company to make loans during periods when funds are not otherwise available for lending purposes. In connection with conventional loan sales, the Company typically sells a majority of mortgage loans originated with servicing released. The Company has also been very active in generating commercial SBA loans, and other commercial loans, with a portion of those loans sold to investors. As of December 31, 2009, loans serviced for others aggregated approximately $176 million. The Company has not originated any type of subprime mortgages, either for the loan portfolio or for sale to investors. In addition, the Company has not purchased securities that were collateralized with subprime mortgages. The Company has not purchased loans outside the Company or originate loans outside the existing geographic market area.

LOAN ORIGINATION AND OTHER FEES

In addition to interest earned on loans, the Company receives fees for originating loans. Loan fees generally are a percentage of the principal amount of the loan and are charged to the borrower, and are normally deducted from the proceeds of the loan. Loan origination fees are generally 1.0 percent to 1.5 percent on residential mortgages and .5 percent to 1.5 percent on commercial loans. Consumer loans require a flat fee as well as a minimum interest amount. The Company also receives other fees and charges relating to existing loans, which include charges and fees collected in connection with loan modifications.

17

NON-PERFORMING LOANS AND REAL ESTATE OWNED

Loans are designated non-accrual and the accrual of interest is discontinued when the collection of the contractual principal or interest is unlikely. The Company typically places loans on non-accrual when principal or interest is due and has remained unpaid for ninety days or more unless the loan is in process of collection and well-secured by collateral the fair value of which is sufficient to pay off the debt in full. When a loan is placed on non-accrual status, interest previously accrued but not collected is reversed against current period interest income. Subsequent payments are applied to the outstanding principal balance if doubt remains as to the ultimate collectability of the loan. Interest accruals are 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 following tables set forth information regarding non-performing assets at the dates indicated, including breakouts by regulatory and bank subsidiary classification:

| (Dollars in thousands) | AT 12/31/2009 | At 12/31/2008 | At 12/31/2007 | At 12/31/2006 | 12/ |
|---|---|---|---|---|---|
| NON-ACCRUAL LOANS: | | | | | |
| Residential real estate | $ 20,093 | $ 3,575 | $ 934 | $1,806 | $ |
| Commercial | 168,328 | 58,454 | 7,192 | 3,721 | |
| Consumer and other | 9,860 | 2,272 | 434 | 538 | |
| Total | 198,281 | 64,301 | 8,560 | 6,065 | |
| ACCRUING LOANS 90 DAYS OR MORE OVERDUE: | | | | | |
| Residential real estate | 1,965 | 4,103 | 840 | 554 | |
| Commercial | 1,311 | 2,897 | 1,216 | 638 | |
| Consumer and other | 2,261 | 1,613 | 629 | 153 | |
| Total | 5,537 | 8,613 | 2,685 | 1,345 | |
| REAL ESTATE AND OTHER ASSETS OWNED | 57,320 | 11,539 | 2,043 | 1,484 | |
| Total non-performing loans and real estate and other assets owned | 261,138 | 84,453 | 13,288 | 8,894 | |
| As a percentage of total bank assets | 4.13% | 1.46% | 0.27% | 0.19% | |
| Interest income (1) | $ 11,730 | $ 4,434 | $ 683 | $ 462 | $ |

(1) Amount of interest that would have been recorded on loans accounted for on a non-accrual basis as of the end of each period if such loans had been current for the entire period.

18

| (Dollars in thousands) | Non-Performing Assets, Net of Gov't. Guarantees by Loan Type December 31, 2009 | 2008 | Non-Accruing Loans 12/31/2009 | Accruing Loans 90 Days or More 12/31/2009 | Other Real Estat Owned 12/31/200 |
|---|---|---|---|---|---|
| Custom and owner occupied construction | $ 3,281 | 451 | 2,499 | -- | 782 |
| Pre-sold and spec construction | 29,580 | 21,903 | 20,849 | 420 | 8,311 |
| Land development | 88,488 | 23,597 | 70,277 | -- | 18,211 |
| Consumer land or lots | 10,120 | 1,511 | 6,161 | 54 | 3,905 |
| Unimproved land | 32,453 | 8,920 | 20,303 | 135 | 12,015 |
| Developed lots for operative builders | 11,565 | 5,567 | 6,350 | 114 | 5,101 |
| Commercial lots | 909 | 280 | 909 | -- | -- |
| Other construction | -- | 2,668 | -- | -- | -- |
| Commercial real estate | 32,300 | 3,391 | 29,859 | 144 | 2,297 |
| Commercial and industrial | 12,271 | 6,983 | 11,669 | 565 | 37 |
| 1-4 family | 30,868 | 6,666 | 22,596 | 2,750 | 5,522 |
| Home equity lines of credit | 6,234 | 1,807 | 4,711 | 1,183 | 340 |
| Consumer | 1,042 | 602 | 476 | 172 | 394 |
| Other | 2,027 | 107 | 1,622 | -- | 405 |
| Total | $261,138 | 84,453 | 198,281 | 5,537 | 57,320 |

| (Dollars in thousands) | Accruing 30 - 89 Days Delinquent Loans and Non-Performing Assets, Net of Gov't. Guarantees by Bank December 31, 2009 | 2008 | Accruing 30-89 Days Delinquent 12/31/2009 | Non-Accrual and Accruing Loans 90 Days or More 12/31/2009 | Other Real Estate Owned 12/31/2009 |
|---|---|---|---|---|---|
| Glacier | $ 97,666 | 41,691 | 18,677 | 72,157 | 6,832 |
| Mountain West | 109,187 | 41,415 | 32,506 | 62,855 | 13,826 |
| First Security | 59,351 | 18,793 | 14,934 | 31,665 | 12,752 |
| 1st Bank | 21,117 | 14,355 | 4,210 | 7,673 | 9,234 |
| Western | 9,315 | 3,364 | 1,796 | 3,295 | 4,224 |
| Big Sky | 31,711 | 10,978 | 5,280 | 17,908 | 8,523 |

| | | | | | |
|---|---|---|---|---|---|
| Valley | 2,542 | 2,855 | 1,783 | 679 | 80 |
| First National | 9,290 | -- | 5,744 | 3,407 | 139 |
| Citizens | 5,340 | 5,080 | 1,910 | 1,873 | 1,557 |
| First Bank - MT | 800 | 563 | 608 | 39 | 153 |
| San Juans | 2,310 | 146 | 43 | 2,267 | -- |
| Total | $348,629 | 139,240 | 87,491 | 203,818 | 57,320 |

Non-performing assets as a percentage of the Bank's total assets at December 31, 2009 were at 4.13 percent, up from 1.46 percent as of December 31, 2008. The allowance for loan and lease losses ("ALLL" or "allowance") was 55 percent of non-performing assets at December 31, 2009, down from 91 percent for the prior year end. The Company increased the provision for loan loss from $28.5 million in 2008 to $124.6 million in 2009 resulting in a significant increase in the ALLL. Such increase was outpaced by the increase in non-performing assets, resulting in a decrease in the ALLL as a percentage of non-performing assets. 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 where appropriate, the Company believes the value of the underlying real estate collateral is adequate to minimize significant charge-offs or loss to the Company. Each bank subsidiary evaluates the level of its non-performing assets, the values of the underlying real estate and other collateral, and related trends in net charge-offs. Through pro-active credit administration, the Banks work closely with borrowers to seek favorable resolution to the extent possible, thereby attempting to minimize net charge-offs or losses to the Company.



A loan is considered 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. The amount of the impairment is measured using 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 collateral dependent loans, impairment is measured by the fair value of the collateral less the cost to sell. When the ultimate collectability of the total principal of an impaired loan is in doubt and is designated as non-accrual, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal on an impaired loan is not in doubt, contractual interest is generally credited to interest income when received under the cash basis method. Total interest income recognized for impaired loans under the cash basis for the years ended December 31, 2009 and 2008 was not significant. Impaired loans, net of government guaranteed amounts, were $218.7 million and $79.9 million as of December 31, 2009 and 2008, respectively. The ALLL includes valuation allowances of $19.8 million and $8.0 million specific to impaired loans as of December 31, 2009 and 2008, respectively. The Company's troubled debt restructuring loans are included in the impaired loans amount. As of December 31, 2009, the Company had troubled debt restructuring loans of $64.6 million, of which there were $1.2 million of additional outstanding commitments.

The combined total of lot acquisition loans to borrowers who intend to construct a primary residence on the lot, and other construction and land acquisition and development loans is $883 million and represents 21.4 percent of the total loans as of December 31, 2009. At December 31, 2008, the comparable total was $1.103 billion, or 26.7 percent of total loans. Outstanding balances are centered in

Western Montana, and Northern Idaho as well as Boise, Ketchum and Sun Valley Idaho.

Property acquired by foreclosure or deed-in-lieu of foreclosure is carried at the lower of fair value at acquisition date or current estimated fair value, less selling costs. Costs, excluding interest, relating to the improvement of property are capitalized, whereas those relating to holding the property are charged to expense. Fair value is determined as the amount that could be reasonably expected in a current sale (other than a forced or liquidation sale) between a willing buyer and a willing seller. If the fair value of the asset minus the estimated cost to sell is less than the cost of the property, a loss is recognized in other expenses and the asset carrying value is reduced. Any gain or loss on disposition of real estate owned is recorded in other income or other expense. The following table sets forth the changes in real estate and other assets owned for the years ended December 31, 2009 and 2008:

| (Dollars in thousands) | Years ended December 31, 2009 | 2008 |
|---|---|---|
| Balance at beginning of period | $ 11,539 | 2,043 |
| Additions | 71,967 | 16,661 |
| Capital improvments | 2,403 | 188 |
| Sales and write-downs | (28,589) | (7,353) |
| Balance at end of period | $ 57,320 | 11,539 |

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 each bank subsidiary's loan and lease portfolios. Accordingly, the ALLL is maintained within a range of estimated losses. The determination of the ALLL and the related provision for loan losses is a critical accounting estimate that involves management's judgments about all known relevant internal and external environmental factors that affect loan losses, including the credit risk inherent in the loan and lease portfolios, economic conditions nationally and in the local markets in which the community bank subsidiaries operate, changes in collateral values, delinquencies, non-performing assets and net charge-offs. Although the Company and the Banks continue to actively monitor economic trends, a softening of economic conditions combined with declines in the values of real estate that collateralize most of the Company's loan and lease portfolios may adversely affect the credit risk and potential for loss to the Company.

The ALLL evaluation is well documented and approved by each bank subsidiary's Board of Directors and reviewed by the parent company's Board of Directors. In addition, the policy and procedures for determining the balance of the ALLL are reviewed annually by each bank subsidiary's Board of Directors, the parent company's Board of Directors, independent credit reviewer and state and federal bank regulatory agencies.

At the end of each quarter, each of the community bank subsidiaries analyzes its loan and lease portfolio and maintain an ALLL at a level that is appropriate and determined in accordance with accounting principles generally accepted in the

United States of America. The ALLL balance covers estimated credit losses on individually evaluated loans, including those which are determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolios. Each of the Bank's ALLL is considered adequate to absorb losses from any segment of its loan and lease portfolio.



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

The Company's model of eleven wholly-owned, independent community banks, each with its own loan committee, chief credit officer and Board of Directors, provides substantial local oversight to the lending and credit management function. Unlike a traditional, single-bank holding company, the Company's decentralized 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 and the community bank subsidiaries operate further mitigates the risk of credit loss. While this process is intended to limit credit exposure, there can be no assurance that problem credits will not arise and loan losses incurred, particularly in periods of rapid economic downturns.

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

The Company considers the ALLL balance of $142.9 million adequate to cover inherent losses in the loan and lease portfolios as of December 31, 2009. However, no assurance can be given that the Company will not, in any particular period, sustain losses that are significant relative to the amount reserved, or that subsequent evaluations of the loan and lease portfolios 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 Part I - Item 1A - Risk Factors.

LOAN LOSS EXPERIENCE

The following tables set forth information regarding the Banks' loan loss experience for the periods indicated:

Years ended December 31,

| (Dollars in thousands) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| BALANCE AT BEGINNING OF PERIOD | $ 76,739 | 54,413 | 49,259 | 38,655 | 26,492 |
| CHARGE-OFFS: | | | | | |
| Residential real estate | (18,854) | (3,233) | (306) | (14) | (115) |
| Commercial loans | (35,077) | (4,957) | (2,367) | (1,187) | (744) |
| Consumer and other loans | (6,965) | (1,649) | (714) | (448) | (539) |
| Total charge offs | (60,896) | (9,839) | (3,387) | (1,649) | (1,398) |
| RECOVERIES: | | | | | |
| Residential real estate | 423 | 23 | 208 | 341 | 82 |
| Commercial loans | 1,636 | 716 | 656 | 331 | 414 |
| Consumer and other loans | 407 | 321 | 358 | 298 | 415 |
| Total recoveries | 2,466 | 1,060 | 1,222 | 970 | 911 |
| CHARGE-OFFS, NET OF RECOVERIES | (58,430) | (8,779) | (2,165) | (679) | (487) |
| Acquisitions (1) | -- | 2,625 | 639 | 6,091 | 6,627 |
| PROVISION FOR LOAN LOSSES | 124,618 | 28,480 | 6,680 | 5,192 | 6,023 |
| BALANCE AT END OF PERIOD | $142,927 | 76,739 | 54,413 | 49,259 | 38,655 |
| Ratio of net charge-offs to average loans outstanding during the period | 1.41% | 0.23% | 0.06% | 0.02% | 0.02% |
| Allowance for loan and lease losses as a percentage of total loan and leases | 3.46% | 1.86% | 1.51% | 1.53% | 1.59% |

(1) Acquisition of San Juans in 2008, North Side in 2007, CDC and Morgan in 2006, First State Bank, Citizens and 1st Bank in 2005

21

| | Allowance for Loan and Lease Losses December 31, | | Provision for Year Ended | Provision for Year Ended 12/31/09 Over Net | ALLL as a Percent of Loans |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2009 | 2008 | 12/31/2009 | Charge-Offs | 12/31/2009 |
| Glacier | $ 38,978 | 18,990 | 32,000 | 2.7 | 4.14% |
| Mountain West | 37,551 | 15,982 | 50,500 | 1.7 | 3.92% |
| First Security | 18,242 | 11,537 | 10,450 | 2.8 | 3.22% |
| 1st Bank | 10,895 | 6,012 | 10,800 | 1.8 | 3.67% |
| Western | 8,762 | 7,062 | 3,200 | 2.1 | 2.71% |
| Big Sky | 10,536 | 6,232 | 9,200 | 1.9 | 3.89% |
| Valley | 4,367 | 3,581 | 1,200 | 2.9 | 2.33% |
| First National | 1,679 | -- | 1,683 | 420.8 | 1.10% |
| Citizens | 4,865 | 2,721 | 2,800 | 4.3 | 2.93% |
| First Bank - MT | 2,904 | 1,945 | 985 | 37.9 | 2.48% |
| San Juans | 4,148 | 2,677 | 1,800 | 5.5 | 2.78% |
| Total | $142,927 | 76,739 | 124,618 | 2.1 | 3.46% |

| (Dollars in thousands) | Net Charge-Offs, Year-to-Date Period Ending Year Ended December 31, 2009 | 2008 | Charge-Offs 12/31/2009 | Recoveries 12/31/2009 |
|---|---|---|---|---|
| Glacier | $12,012 | 1,121 | 12,117 | 105 |
| Mountain West | 28,931 | 5,557 | 29,766 | 835 |
| First Security | 3,745 | 425 | 3,931 | 186 |
| 1st Bank | 5,917 | 347 | 6,215 | 298 |
| Western | 1,500 | 282 | 1,896 | 396 |
| Big Sky | 4,896 | 600 | 5,433 | 537 |
| Valley | 414 | 127 | 457 | 43 |
| First National | 4 | -- | 4 | -- |
| Citizens | 656 | 302 | 683 | 27 |
| First Bank-MT | 26 | 17 | 57 | 31 |
| San Juans | 329 | 1 | 337 | 8 |
| Total | $58,430 | 8,779 | 60,896 | 2,466 |

ALLOCATION OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

| (Dollars in thousands) | 2009 | | 2008 | | 2 |
|---|---|---|---|---|---|
| | ALLOWANCE FOR LOAN AND LEASE LOSSES | PERCENT OF LOANS IN CATEGORY | Allowance for Loan and Lease Losses | Percent of Loans in Category | Allowance for Loan and Lease Losses |
| Residential real estate | $ 13,496 | 19.6% | 7,233 | 20.3% | 4,755 |
| Commercial real estate | 66,791 | 45.9% | 35,305 | 46.8% | 23,010 |
| Other commercial | 39,558 | 17.5% | 21,590 | 15.6% | 17,453 |
| Consumer and other loans | 23,082 | 17.0% | 12,611 | 17.3% | 9,195 |
| Totals | $142,927 | 100.0% | 76,739 | 100.0% | 54,413 |

| (Dollars in thousands) | 2006 | | 2005 | |
|---|---|---|---|---|
| | Allowance for Loan and Lease Losses | Percent of Loans in Category | Allowance for Loan and Lease Losses | Percent of Loans in Category |
| Residential real estate | 5,421 | 24.6% | 4,318 | 25.0% |
| Commercial real estate | 16,741 | 36.1% | 14,370 | 38.3% |
| Other commercial | 18,361 | 21.5% | 12,566 | 17.4% |
| Consumer and other loans | 8,736 | 17.8% | 7,401 | 19.3% |
| Totals | 49,259 | 100.0% | 38,655 | 100.0% |

The increase in the ALLL was primarily due to the increase in non-performing assets since December 31, 2008 and a downturn in global, national and local economies. The ALLL has increased $66.2 million, or 86 percent, from a year ago. The ALLL of $142.9 million is 3.46 percent of December 31, 2009 total loans outstanding, up from 1.86 percent at prior year end. The provision for loan losses expense was $124.6 million, an increase of $96.1 million from 2008. Net loans and lease charge-offs were $58.4 million, or 1.41 percent of average loans and leases in 2009, compared to net charge-offs of $8.8 million, or 0.23 percent of average loans and leases in 2008. Each of the Banks' charge-off policy is consistent with bank regulatory standards. Consumer loans are generally charged off when the loan becomes over 120 days delinquent. Loan portfolio growth, composition, average loan size, credit quality considerations, and other environmental factors will continue to determine the level of additional provision expense.

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

## SOURCES OF FUNDS

### GENERAL

Deposits obtained through the Banks have traditionally been the principal source of funds for use in lending and other business purposes. Currently, the Banks have a number of different 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 regular statement savings, interest-bearing checking, money market deposit accounts, and fixed rate certificates of deposit with maturities ranging form three months to five years, negotiated-rate jumbo certificates, non-interest demand accounts, and individual retirement accounts. In addition, the Banks obtain wholesale deposits through various programs including the Certificate of Deposit Account Registry System ("CDARS").

The Banks also obtain funds from loan repayments, advances from the FHLB, borrowings through the FRB, borrowings from the U.S. Treasury Tax and Loan funds, repurchase agreements, and loan sales. 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. They also may be used on a long-term basis to support expanded activities and to match maturities of longer-term assets.

### DEPOSITS

Deposits are obtained primarily from individual and business residents of the Banks' market area. The Banks issue negotiated-rate certificate of deposits accounts and have paid a limited amount of fees to brokers to obtain deposits. The following table illustrates the amounts outstanding for deposits $100,000 and greater, according to the time remaining to maturity, of which $224 million consists of CDARS deposits.

| (Dollars in thousands) | Certificate of Deposits | Demand Deposits | Totals |
|---|---|---|---|
| Within three months | $231,811 | 1,586,604 | 1,818,415 |
| Three months to six months | 144,914 | -- | 144,914 |
| Seven months to twelve months | 260,038 | -- | 260,038 |
| Over twelve months | 92,383 | -- | 92,383 |
| Totals | $729,146 | 1,586,604 | 2,315,750 |

For additional deposit information, see "Item 7 - Management's Discussion & Analysis" and Note 7 to the Consolidated Financial Statements in "Item 8 -- Financial Statements and Supplementary Data".



ADVANCES AND OTHER BORROWINGS

As members of the FHLB, the Banks may borrow from such entity on the security of FHLB stock, which the Banks are required to own as a member. The borrowings are collateralized by eligible categories of loans and investment securities (principally, securities which are obligations of, or guaranteed by, the United States 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 rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's total assets or on the FHLB's assessment of the institution's credit-worthiness. FHLB advances have been used from time to time to meet seasonal and other withdrawals of deposits and to expand lending by matching a portion of the estimated amortization and prepayments of retained fixed rate mortgages. All bank subsidiaries, except San Juans, are members of the FHLB of Seattle; however, San Juans is a member of the FHLB of Topeka.

The Banks also borrow funds from the FRB and from the U.S. Treasury Tax and Loan program. Both programs require pledging of certain loans or investment securities of the Banks and are generally short term obligations.

From time to time, primarily as a short-term financing arrangement for investment or liquidity purposes, the Banks have made use of repurchase agreements. This process involves the "selling" of one or more of the securities in the Banks' portfolio and by entering into an agreement to "repurchase" that same security at an agreed upon later date. A rate of interest is paid for the subject period of time. In addition, although the Banks have offered retail repurchase agreements to its retail customers, the Government Securities Act of 1986 imposed confirmation and other requirements which generally made it impractical for financial institutions to offer such investments on a broad basis. Through policies adopted by each of the bank's Board of Directors, the Banks enter into repurchase agreements with local municipalities, and certain customers, and have adopted procedures designed to ensure proper transfer of title and safekeeping of the underlying securities.

The following chart illustrates the average balances and the maximum outstanding month-end balances for FHLB advances, repurchase agreements, U.S. Treasury Tax and Loan borrowings, and FRB borrowings:

| (Dollars in thousands) | 2009 | 2008 | 2007 |
|---|---|---|---|
| | Years ended December 31, | | |
| FHLB advances: | | | |
| Amount outstanding at end of period ...... | $ 790,367 | 338,456 | 538,949 |
| Average balance ......................... | $ 473,038 | 566,933 | 382,243 |
| Maximum outstanding at any month-end ..... | $ 790,367 | 822,107 | 538,949 |
| Weighted average interest rate ........... | 1.68% | 2.71% | 4.94% |
| Repurchase agreements: | | | |
| Amount outstanding at end of period ...... | $ 212,506 | 188,363 | 178,041 |
| Average balance ......................... | $ 204,503 | 188,952 | 171,290 |
| Maximum outstanding at any month-end ..... | $ 234,914 | 196,461 | 193,421 |
| Weighted average interest rate ........... | 0.98% | 2.02% | 4.35% |
| U.S. Treasury Tax and Loan: | | | |
| Amount outstanding at end of period ...... | $ 5,136 | 6,067 | 221,409 |
| Average balance ......................... | $ 3,686 | 165,690 | 120,188 |
| Maximum outstanding at any month-end ..... | $ 5,136 | 385,246 | 244,012 |
| Weighted average interest rate ........... | 0.00% | 2.28% | 5.03% |
| Federal Reserve Bank discount window: | | | |
| Amount outstanding at end of period ...... | $ 225,000 | 914,000 | -- |
| Average balance ......................... | $ 658,262 | 277,611 | -- |
| Maximum outstanding at any month-end ..... | $1,005,000 | 928,000 | -- |
| Weighted average interest rate ........... | 0.26% | 1.76% | -- |

For additional information concerning the Company's borrowings and repurchase agreements, see Notes 8 and 9 to the Consolidated Financial Statements in "Item 8 -- Financial Statements and Supplementary Data".



SUBORDINATED DEBENTURES

In addition to funds obtained in the ordinary course of business, the Company formed Glacier Trust II, Glacier Trust III, and Glacier Trust IV as financing subsidiaries and obtained Citizens Trust I in connection with the acquisition of Citizens on April 1, 2005, San Juans Trust I in connection with the acquisition of San Juans on December 1, 2008, and First Co Trust 01 and First Co Trust 03 in connection with the acquisition of First National on October 2, 2009. The trusts issued preferred securities that entitle the shareholder to receive cumulative cash distributions from payments thereon. The Subordinated Debentures outstanding as of December 31, 2009 are $124,988,000, including fair value adjustments from acquisitions. For additional information regarding the subordinated debentures, see Note 10 to the Consolidated Financial Statements "Item 8 - Financial Statements and Supplementary Data".

EMPLOYEES

As of December 31, 2009, the Company employed 1,739 persons, 1,497 of whom were full time, none of whom were represented by a collective bargaining group. The Company provides its employees with a comprehensive benefit program, including medical insurance, dental plan, life and accident insurance, long-term disability coverage, sick leave, profit sharing plan, savings plan and employee stock options. The Company considers its employee relations to be excellent. See

Note 13 in the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data" for detailed information regarding employee benefit plans and eligibility.

## SUPERVISION AND REGULATION

### INTRODUCTION

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

To the extent that this section describes statutory and regulatory provisions, it is qualified by reference to those provisions. These statutes and regulations, as well as related policies, are subject to change by Congress, state legislatures and federal and state regulators. Changes in statutes, regulations or regulatory policies applicable to the Company, including the interpretation or implementation thereof, could have a material effect on the Company's business or operations. Recently, in light of the recent financial crisis, numerous proposals to modify or expand banking regulation have surfaced. Based on past history, if any are approved, they will add to the complexity and cost of the Company's business.

### BANK HOLDING COMPANY REGULATION

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended ("BHCA"), due to its ownership of the bank subsidiaries listed below. Glacier, First Security, Western, Big Sky, Valley, and First Bank-MT are Montana state-chartered banks and are members of the Federal Reserve System; Mountain West and Citizens are Idaho state-chartered banks; 1st Bank is a Wyoming state-chartered bank and is a member of the Federal Reserve System; First National is a nationally chartered bank and is a member of the Federal Reserve System; and San Juans is a Colorado state-chartered bank. The deposits of the Banks are insured by the FDIC.

As a bank holding company, the Company is subject to regulation, supervision and examination by the Federal Reserve. In general, the BHCA limits the business of bank holding companies to owning or controlling banks and engaging in other activities closely related to banking. The Company must also file reports with and provide additional information to the Federal Reserve. Under the Financial Services Modernization Act of 1999, a bank holding company may apply to the Federal Reserve to become a financial holding company, and thereby engage (directly or through a subsidiary) in certain expanded activities deemed financial in nature, such as securities brokerage and insurance underwriting.

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

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

Transactions with Affiliates.

Bank subsidiaries of a bank holding company are subject to restrictions imposed by the Federal Reserve Act on extensions of credit to the holding company or its subsidiaries, on investments in their securities, and on the use of their securities as collateral for loans to any borrower. These regulations and restrictions may limit the Company's ability to obtain funds from the bank subsidiaries for its cash needs, including funds for payment of dividends, interest and operational expenses.

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

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

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

THE BANK SUBSIDIARIES

Glacier, First Security, Western, Big Sky, Valley, and First Bank-MT are subject to regulation and supervision by the Montana Department of Administration's Banking and Financial Institutions Division and the Federal Reserve as a result of their membership in the Federal Reserve System.

Mountain West and Citizens are subject to regulation by the Idaho Department of Finance and by the FDIC. In addition, Mountain West's Utah and Washington branches are primarily regulated by the Utah Department of Financial Institutions and the Washington Department of Financial Institutions, respectively.

1st Bank is a member of the Federal Reserve System and is subject to regulation and supervision by the Federal Reserve and also the Wyoming Division of Banking as a Wyoming state chartered bank. First National is a member of the Federal Reserve System and is subject to regulation and supervision by the Federal Reserve and also the Office of Comptroller of the Currency ("OCC") as a nationally chartered bank, and to a certain extent, by the Wyoming Division of

Banking.

San Juans is subject to regulation by the Colorado Department of Regulatory Agencies-Division of Banking and by the FDIC.

The federal laws that apply to the Banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, and the nature, amount of, and collateral for loans. Federal laws also regulate community reinvestment and insider credit transactions and impose safety and soundness standards.

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

26

Insider Credit Transactions. Banks are also subject to certain restrictions on extensions of credit to executive officers, directors, principal shareholders, and their related interests. Extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are at least as stringent, as those prevailing at the time for comparable transactions with persons not covered above and who are not employees; and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to insiders. A violation of these restrictions may result in the assessment of substantial civil monetary penalties, the imposition of a cease and desist order, and other regulatory sanctions.

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

Safety and Soundness Standards. Federal law imposes upon banks certain non-capital safety and soundness standards. These standards cover, among other things, internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to its regulators, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

INTERSTATE BANKING AND BRANCHING

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") relaxed prior interstate branching restrictions under federal law by permitting nationwide interstate banking and branching under certain

circumstances. Generally, bank holding companies may purchase banks in any state and states may not prohibit these purchases. Additionally, banks are permitted to merge with banks in other states as long as the home state of neither merging bank has opted out under the legislation. The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. Federal bank regulations prohibit banks from using their interstate branches primarily for deposit production and federal bank regulatory agencies have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

With regard to interstate bank mergers, Montana "opted-out" of the Interstate Act. Subject to certain conditions, an in-state bank that has been in existence for at least 5 years may merge with an out-of-state bank. Banks, bank holding companies, and their respective subsidiaries cannot acquire control of a bank located in Montana if, after the acquisition, the acquiring institution, together with its affiliates, would directly or indirectly control more than 22% of the total deposits of insured depository institutions and credit unions located in Montana. Montana law does not authorize the establishment of a branch bank in Montana by an out-of-state bank.

Idaho has enacted "opting in" legislation in accordance with the Interstate Act provisions allowing banks to engage in interstate merger transactions subject to certain "aging" requirements. Branches may not be acquired or opened separately in Idaho by an out-of-state bank, but once an out-of-state bank has acquired a bank within Idaho, either through merger or acquisition of all or substantially all of the bank's assets, the out-of-state bank may open additional branches within Idaho.

Under Wyoming law, banks located in Wyoming may be acquired by out-of-state banks so long as (i) with certain exceptions, the resulting bank and its affiliates would not control 30% or more of the total deposits held by all insured depository institutions in Wyoming; and (ii) the in-state bank has been in existence for at least three years. Branches may not be acquired or opened separately in Wyoming by an out-of-state bank, but once an out-of-state bank has acquired a bank within Wyoming, either through merger or acquisition of all or substantially all of the bank's assets, the out-of-state bank may open additional branches within Wyoming.

Under Colorado law, an out-of-state bank holding company may not acquire control of, or acquire all or substantially all of the assets of, a Colorado bank unless such bank has been in operation for at least five years. An out-of-state bank holding company acquiring control of a Colorado bank holding company may acquire control of any Colorado bank controlled by the Colorado bank holding company even though such bank has been in operation for less than five years.



Utah and Washington have each enacted "opting in" legislation similar in certain respects to that enacted by Idaho, allowing banks to engage in interstate merger transactions subject to certain aging requirements. Under Utah law, an out-of-state bank may acquire a bank branch located in Utah, but it may not establish a de novo branch in Utah if its home state does not have reciprocal laws on de novo branching. Under Washington law, an out-of-state bank may, subject to the Director's approval, open de novo branches in Washington or acquire an in-state branch so long as the home state of the out-of-state bank has reciprocal laws with respect to de novo branching or branch acquisitions.

DIVIDENDS

The principal source of the Company's cash is from dividends received from the Banks, which are subject to government regulation and limitation. Regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. State law and, in the case of First National, national banking laws and related OCC regulations, limit a bank's ability to pay dividends that are greater than a certain amount without approval of the applicable agency. Additionally, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters.

CAPITAL ADEQUACY

Regulatory Capital Guidelines. Federal bank regulatory agencies use capital adequacy guidelines in the examination and regulation of bank holding companies and banks. The guidelines are "risk-based," meaning that they are designed to make capital requirements more sensitive to differences in risk profiles among banks and bank holding companies.

Tier I and Tier II Capital. Under the guidelines, an institution's capital is divided into two broad categories, Tier I capital and Tier II capital. Tier I capital generally consists of common shareholders' equity, surplus, undivided profits, and subordinated debentures. Tier II capital generally consists of the allowance for loan and lease losses, hybrid capital instruments, and subordinated debt. The sum of Tier I capital and Tier II capital represents an institution's total capital. The guidelines require that at least 50% of an institution's total capital consist of Tier I capital.

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

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

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

REGULATORY OVERSIGHT AND EXAMINATION

The Federal Reserve conducts periodic inspections of bank holding companies, which are performed both onsite and offsite. The supervisory objectives of the inspection program are to ascertain whether the financial strength of the bank holding company is being maintained on an ongoing basis and to determine the

effects or consequences of transactions between a holding company or its non-banking subsidiaries and its bank subsidiaries. For holding companies under $10 billion in assets, the inspection type and frequency varies depending on asset size, complexity of the organization, and the holding company's rating at its last inspection.



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

CORPORATE GOVERNANCE AND ACCOUNTING LEGISLATION

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

To deter wrongdoing, the Act: (i) subjects bonuses issued to top executives to disgorgement if a restatement of a company's financial statements was due to corporate misconduct; (ii) prohibits an officer or director misleading or coercing an auditor; (iii) prohibits insider trades during retirement plan "blackout periods"; (iv) imposes new criminal penalties for fraud and other wrongful acts; and (v) extends the period during which certain securities fraud lawsuits can be brought against a company or its officers.

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

ANTI-TERRORISM LEGISLATION

USA Patriot Act of 2001. The Uniting and Strengthening America by Providing

Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, intended to combat terrorism, was renewed with certain amendments in 2006 (the "Patriot Act"). Certain provisions of the Patriot Act were made permanent and other sections were made subject to extended "sunset" provisions. The Patriot Act, in relevant part, (i) prohibits banks from providing correspondent accounts directly to foreign shell banks; (ii) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals; (iii) requires financial institutions to establish an anti-money-laundering compliance program; and (iv) eliminates civil liability for persons who file suspicious activity reports. The Act also includes provisions providing the government with power to investigate terrorism, including expanded government access to bank account records. While the Patriot Act has had minimal affect on the Company's and the bank subsidiaries' record keeping and reporting expenses, it is likely that the renewal and amendment will not have a material adverse effect on business or operations.

FINANCIAL SERVICES MODERNIZATION

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 brought about significant changes to the laws affecting banks and bank holding companies. Generally, the Act (i) repeals historical restrictions on preventing banks from affiliating with securities firms; (ii) provides a uniform framework for the activities of banks, savings institutions and their holding companies; (iii) broadens the activities that may be conducted by national banks and banking subsidiaries of bank holding companies; (iv) provides an enhanced framework for protecting the privacy of consumer information and requires notification to consumers of bank privacy policies; and (v) addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions. Bank holding companies that qualify and elect to become financial holding companies can engage in a wider variety of financial activities than permitted under previous law, particularly with respect to insurance and securities underwriting activities.



RECENT LEGISLATION

Emergency Economic Stabilization Act of 2008. In response to the recent financial crisis, the United States government passed the Emergency Economic Stabilization Act of 2008 (the "EESA") on October 3, 2008, which provides the United States Treasury Department (the "Treasury") with broad authority to implement certain actions intended to help restore stability and liquidity to the U.S. financial markets.

Insurance of Deposit Accounts. The EESA included a provision for a temporary increase from $100,000 to $250,000 per depositor in deposit insurance effective October 3, 2008 through December 31, 2013.

Deposit Insurance Assessments. The FDIC imposes an assessment against institutions for deposit insurance. This assessment is based on the risk category of the institution and ranges from 7 to 77.5 basis points of the institution's deposits. In December 2008, the FDIC adopted a rule that raised the current deposit insurance assessment rates uniformly for all institutions by 7 basis points (to a range from 12 to 50 basis points) for the first quarter of 2009. In February of 2009, the FDIC adopted a final rule modifying the risk-based assessment system and setting initial base assessment rates beginning April 1, 2009 at 12 to 45 basis points. The rule also gives the FDIC the authority to, as necessary, implement emergency special assessments to maintain

the deposit insurance fund.

Prepaid Assessments. On November 12, 2009, the FDIC approved a final rule requiring all FDIC-insured depository institutions to prepay estimated quarterly assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. The prepayment was collected on December 30, 2009, along with institutions' regular quarterly deposit insurance assessments for the third quarter of 2009. For the fourth quarter of 2009 and all of 2010, the prepaid assessments will be based on an institution's total base assessment rate in effect on September 30, 2009. That rate will be increased by three basis points for 2011 and 2012 prepayments. The prepaid assessments will be accounted for as a prepaid expense amortized over the three year period.

Troubled Asset Relief Program. Pursuant to the EESA, the Treasury has the ability to purchase or insure up to $700 billion in troubled assets held by financial institutions under the Troubled Asset Relief Program ("TARP"). On October 14, 2008, the Treasury announced it would initially purchase equity stakes in financial institutions under a Capital Purchase Program (the "CPP") of up to $350 billion of the $700 billion authorized under the TARP legislation. The CPP provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. The Company received approval for, but determined not to participate in the CPP in light of its successful sale of common stock in November 2008.

Temporary Liquidity Guarantee Program. In October 2008, the FDIC announced the Temporary Liquidity Guarantee Program, which has two components--the Debt Guarantee Program and the Transaction Account Guarantee Program. Under the Transaction Account Guarantee Program any participating depository institution is able to provide full deposit insurance coverage for non-interest bearing transaction accounts, regardless of the dollar amount. Non-interest bearing transaction accounts include demand accounts and NOW accounts contractually limited to paying 50 basis points or less. Under the program, effective November 14, 2008, insured depository institutions that have not opted out of the FDIC Temporary Liquidity Guarantee Program will be subject to a 0.10% surcharge applied to non-interest bearing transaction deposit account balances in excess of $250,000, which surcharge will be added to the institution's existing risk-based deposit insurance assessments. Under the Debt Guarantee Program, qualifying unsecured senior debt issued by a participating institution can be guaranteed by the FDIC. The Company and its bank subsidiaries chose to participate in both components of the FDIC Temporary Liquidity Guaranty Program.

American Recovery and Reinvestment Act of 2009. On February 17, 2009 the American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law. ARRA is intended to help stimulate the economy and is a combination of tax cuts and spending provisions applicable to a broad range of areas with an estimated cost of about $780 billion. The impact that ARRA may have on the US economy, the Company and the Banks cannot be predicted with reasonable certainty.



PROPOSED LEGISLATION

Proposed legislation is introduced in almost every legislative session. Such legislation could dramatically affect the regulation of the banking industry. In light of the 2008 financial crisis, legislation reshaping the regulatory landscape for financial institutions has been proposed. A current proposal includes measures aimed to prevent another financial crisis like the one in 2008

by forming a federal regulatory body to protect the interests of consumers by preventing abusive and risky lending practices, increasing supervision and regulation on financial firms deemed too big to fail, giving shareholders an advisory vote on executive pay, and regulating complex derivatives instruments. The Company cannot predict if any such legislation will be adopted or if it is adopted how it would affect the business of the Company or the Banks. Past history has demonstrated that new legislation or changes to existing laws or regulations usually results in a greater compliance burden and, therefore, generally increases the cost of doing business.

EFFECTS OF GOVERNMENT MONETARY POLICY

The Company's earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements national monetary policy for such purposes as curbing inflation and combating recession, but its open market operations in U.S. government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits, influence the growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on the Company or the Banks cannot be predicted with certainty.

TAXATION

FEDERAL TAXATION

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.

STATE TAXATION

Under Montana, Idaho, Colorado and Utah law, financial institutions are subject to a corporation tax, which incorporates or is substantially similar to applicable provisions of the Internal Revenue Code. The corporation tax is imposed on federal taxable income, subject to certain adjustments. State taxes are incurred at the rate of 6.75 percent in Montana, 7.6 percent in Idaho, 5 percent in Utah and 4.63 percent in Colorado. Wyoming and Washington do not impose a corporate income tax.

See Note 12 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data" for additional information.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

31

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders
Glacier Bancorp, Inc.
Kalispell, Montana

We have audited the accompanying consolidated statements of financial condition

of Glacier Bancorp, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2009. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Glacier Bancorp, Inc. as December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with accounting principles generally accepted in the Unites States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Glacier Bancorp, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 1, 2010, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ BKD, LLP

Denver, Colorado
March 1, 2010

32

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders
Glacier Bancorp, Inc.
Kalispell, Montana

We have audited Glacier Bancorp, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective

internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.



In our opinion, Glacier Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Glacier Bancorp, Inc. and our report dated March 1, 2010, expressed an unqualified opinion thereon.

/s/ BKD, LLP

Denver, Colorado
March 1, 2010



GLACIER BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31

| (Dollars in thousands, except per share data) | 2009 | |
|---|---|---|
| **ASSETS:** | | |
| Cash on hand and in banks | $ 120,731 | 1 |
| Federal funds sold | 87,155 | |
| Interest bearing cash deposits | 2,689 | |
| Cash and cash equivalents | 210,575 | 1 |
| Investment securities, available-for-sale | 1,506,394 | 9 |
| Loans receivable, net of allowance for loan and lease losses of $142,927 and $76,739 at December 31, 2009 and 2008, respectively | 3,920,988 | 3,9 |
| Loans held for sale | 66,330 | |
| Premises and equipment, net | 140,921 | 1 |
| Real estate and other assets owned, net | 57,320 | |
| Accrued interest receivable | 29,729 | |
| Deferred tax asset | 41,082 | |
| Core deposit intangible, net of accumulated amortization of $17,910 and $14,794 at December 31, 2009 and 2008, respectively | 13,937 | |
| Goodwill | 146,259 | 1 |
| Other assets | 58,260 | |
| Total assets | $6,191,795 | 5,5 |
| **LIABILITIES:** | | |
| Non-interest bearing deposits | $ 810,550 | 7 |
| Interest bearing deposits | 3,289,602 | 2,5 |
| Advances from Federal Home Loan Bank | 790,367 | 3 |
| Securities sold under agreements to repurchase | 212,506 | 1 |
| Federal Reserve Bank discount window | 225,000 | 9 |
| Other borrowed funds | 13,745 | |
| Accrued interest payable | 7,928 | |
| Subordinated debentures | 124,988 | 1 |
| Other liabilities | 31,219 | |
| Total liabilities | 5,505,905 | 4,8 |
| **STOCKHOLDERS' EQUITY:** | | |
| Preferred shares, $0.01 par value per share. 1,000,000 shares authorized. none issued or outstanding at December 31, 2009 and 2008 | -- | |
| Common stock, $0.01 par value per share. 117,187,500 and 117,187,500 shares authorized, 61,619,803 and 61,331,273 issued and outstanding at December 31, 2009 and 2008, respectively | 616 | |
| Paid-in capital | 497,493 | 4 |
| Retained earnings - substantially restricted | 188,129 | 1 |
| Accumulated other comprehensive loss | (348) | |
| Total stockholders' equity | 685,890 | 6 |
| Total liabilities and stockholders' equity | $6,191,795 | 5,5 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

| (Dollars in thousands, except per share data) | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| INTEREST INCOME: | | | |
| Residential real estate loans | $ 54,498 | 51,166 | 59,664 |
| Commercial loans | 151,580 | 165,119 | 157,644 |
| Consumer and other loans | 44,844 | 47,725 | 48,105 |
| Investment securities and other | 51,572 | 38,975 | 39,347 |
| Total interest income | 302,494 | 302,985 | 304,760 |
| INTEREST EXPENSE: | | | |
| Deposits | 38,429 | 55,012 | 81,459 |
| Federal Home Loan Bank advances | 7,952 | 15,355 | 18,897 |
| Securities sold under agreements to repurchase | 2,007 | 3,823 | 7,445 |
| Subordinated debentures | 6,818 | 7,430 | 7,537 |
| Other borrowed funds | 1,961 | 8,752 | 5,953 |
| Total interest expense | 57,167 | 90,372 | 121,291 |
| NET INTEREST INCOME | 245,327 | 212,613 | 183,469 |
| Provision for loan losses | 124,618 | 28,480 | 6,680 |
| Net interest income after provision for loan losses | 120,709 | 184,133 | 176,789 |
| NON-INTEREST INCOME: | | | |
| Service charges and other fees | 40,465 | 41,550 | 37,931 |
| Miscellaneous loan fees and charges | 5,406 | 5,956 | 7,555 |
| Gain on sale of loans | 26,923 | 14,849 | 13,283 |
| Gain (loss) on investments | 5,995 | (7,345) | (8) |
| Other income | 7,685 | 6,024 | 6,057 |
| Total non-interest income | 86,474 | 61,034 | 64,818 |
| NON-INTEREST EXPENSE: | | | |
| Compensation, employee benefits and related expense | 84,965 | 82,027 | 79,070 |
| Occupancy and equipment expense | 23,471 | 21,674 | 19,152 |
| Advertising and promotions | 6,477 | 6,989 | 6,306 |
| Outsourced data processing expense | 3,031 | 2,508 | 2,755 |
| Core deposit intangibles amortization | 3,116 | 3,051 | 3,202 |
| Foreclosed asset expenses, losses and write-downs | 9,092 | 1,176 | 193 |
| Federal Deposit Insurance Corporation premiums | 8,639 | 1,377 | 755 |
| Other expense | 30,027 | 27,107 | 26,484 |
| Total non-interest expense | 168,818 | 145,909 | 137,917 |
| EARNINGS BEFORE INCOME TAXES | 38,365 | 99,258 | 103,690 |
| Federal and state income tax expense | 3,991 | 33,601 | 35,087 |
| NET EARNINGS | $ 34,374 | 65,657 | 68,603 |
| BASIC EARNINGS PER SHARE | $ 0.56 | 1.20 | 1.29 |
| DILUTED EARNINGS PER SHARE | $ 0.56 | 1.19 | 1.28 |

See accompanying notes to consolidated financial statements.

36

GLACIER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007

| (Dollars in thousands, except per share data) | Common Stock Shares | Common Stock Amount | Paid-in Capital | Ret Ear Substa Rest |
|---|---|---|---|---|
| Balance at December 31, 2006 | 52,302,820 | $523 | 344,265 | 108 |
| Comprehensive income: | | | | |
| Net earnings | -- | -- | -- | 68 |
| Unrealized gain on securities, net of reclassification adjustment and taxes | -- | -- | -- | |
| Total comprehensive income | | | | |
| Cash dividends declared ($0.50 per share) | -- | -- | -- | (26 |
| Stock options exercised | 550,080 | 6 | 6,148 | |
| Stock issued in connection with acquisitions | 793,580 | 7 | 18,993 | |
| Stock-based compensation and tax benefit | -- | -- | 5,322 | |
| Balance at December 31, 2007 | 53,646,480 | $536 | 374,728 | 150 |
| Comprehensive income: | | | | |
| Net earnings | -- | -- | -- | 65 |
| Unrealized loss on securities, net of reclassification adjustment and taxes | -- | -- | -- | |
| Total comprehensive income | | | | |
| Cash dividends declared ($0.52 per share) | -- | -- | -- | (29 |
| Stock options exercised | 719,858 | 7 | 9,789 | |
| Stock issued in connection with acquisition | 639,935 | 7 | 9,280 | |
| Public offering of stock issued | 6,325,000 | 63 | 93,890 | |
| Cumulative effect of a change in accounting principle | -- | -- | -- | |
| Stock-based compensation and tax benefit | -- | -- | 4,107 | |
| Balance at December 31, 2008 | 61,331,273 | $613 | 491,794 | 185 |
| Comprehensive income: | | | | |
| Net earnings | -- | -- | -- | 34 |
| Unrealized gain on securities, net of reclassification adjustment and taxes | -- | -- | -- | |
| Total comprehensive income | | | | |
| Cash dividends declared ($0.52 per share) | -- | -- | -- | (32 |
| Stock options exercised | 188,535 | 2 | 2,552 | |
| Stock issued in connection with acquisition | 99,995 | 1 | 1,419 | |
| Stock-based compensation and tax benefit | -- | -- | 1,728 | |
| Balance at December 31, 2009 | 61,619,803 | $616 | 497,493 | 188 |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Disclosure of reclassification amount: | | | |
| Unrealized and realized holding gain (loss) arising during the year | $ 7,474 | (14,540) | 70 |
| Tax (expense) benefit | (2,933) | 5,699 | (27) |
| Net after tax | 4,541 | (8,841) | 43 |
| Reclassification adjustment for net (gain) loss included in net income | (5,995) | 7,345 | 8 |
| Tax expense (benefit) | 2,349 | (2,864) | (3) |
| Net after tax | (3,646) | 4,481 | 5 |
| Net change in unrealized gain (loss) on available-for-sale securities | $ 895 | (4,360) | 48 |

See accompanying notes to consolidated financial statements.



GLACIER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years ended D | |
|---|---|---|
| (Dollars in thousands) | 2009 | 200 |
| OPERATING ACTIVITIES: | | |
| Net earnings | $ 34,374 | 65 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | |
| Mortgage loans held for sale originated or acquired | (1,239,862) | (675 |
| Proceeds from sales of mortgage loans held for sale | 1,255,432 | 675 |
| Provision for loan losses | 124,618 | 28 |
| Depreciation of premises and equipment | 10,450 | 9 |
| Amortization of core deposit intangible | 3,116 | 3 |
| (Gain) loss on sale of investments | (5,995) | 7 |
| Gain on sale of loans | (26,923) | (14 |
| Loss (gain) on OREO and writedown | 5,676 | |
| Bargain purchase gain | (3,482) | |
| Amortization of investment securities premiums and discounts, net | (73) | 1 |
| FHLB stock dividends | (16) | |
| Gain on sale of Western's Lewistown branch | -- | |
| Deferred (benefit) tax expense | (29,755) | (11 |
| Stock compensation expense, net of tax benefits | 1,863 | 1 |
| Excess tax benefits related to the exercise of stock options | (75) | (1 |

| | | |
|---|---|---|
| Net decrease (increase) in accrued interest receivable | 1,312 | (2 |
| Net (decrease) increase in accrued interest payable | (2,241) | (3 |
| Net (decrease) increase in current income taxes payable | (2,913) | 2 |
| Net increase in other assets | (26,982) | |
| Net (decrease) increase in other liabilities | (1,787) | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 96,737 | 87 |
| INVESTING ACTIVITIES: | | |
| Proceeds from sales, maturities and prepayments of investment securities available-for-sale | 310,809 | 280 |
| Purchases of investment securities available-for-sale | (768,045) | (584 |
| Principal collected on installment and commercial loans | 1,002,856 | 1,088 |
| Installment and commercial loans originated or acquired | (1,006,751) | (1,420 |
| Principal collections on mortgage loans | 237,883 | 305 |
| Mortgage loans originated or acquired | (184,354) | (357 |
| Proceeds from sale of OREO | 14,763 | 4 |
| Net purchase of FHLB and FRB stock | (701) | |
| Net cash received (paid) for acquisition of banks | 41,716 | (7 |
| Net cash paid for sale of Western's Lewistown branch | -- | |
| Net addition of premises and equipment | (11,859) | (15 |
| NET CASH USED IN INVESTING ACTIVITIES | (363,683) | (707 |
| FINANCING ACTIVITIES: | | |
| Net increase (decrease) in deposits | 601,062 | (40 |
| Net increase (decrease) in FHLB advances | 451,910 | (209 |
| Net increase in securities sold under repurchase agreements | 8,251 | 10 |
| Net (decrease) increase in Federal Reserve Bank discount window | (689,000) | 914 |
| Net (decrease) increase in U.S. Treasury Tax and Loan funds | (930) | (215 |
| Net increase (decrease) in other borrowed funds | 365 | (6 |
| Cash dividends paid | (32,021) | (29 |
| Excess tax benefits related to the exercise of stock options | 75 | 1 |
| Proceeds from exercise of stock options and other stock issued | 2,554 | 103 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 342,266 | 527 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 75,320 | (92 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 135,255 | 227 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 210,575 | 135 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for interest | $ 59,408 | 94 |
| Cash paid during the year for income taxes | 36,778 | 43 |
| Sale and refinancing of other real estate owned | 8,150 | 2 |
| Other real estate acquired in settlement of loans | 71,967 | 16 |

The following schedule summarizes the Company's acquisitions in 2009, 2008 and 2007:

| | FIRST NATIONAL BANK & TRUST | BANK OF THE SAN JUANS | NORTH SIDE STATE BANK |
|---|---|---|---|
| Date acquired | Oct. 2, 2009 | Dec. 1, 2008 | April 30, 2007 |
| Fair Value of assets acquired | $272,280 | $157,648 | $128,252 |
| Cash paid for the capital stock | 621 | 7,133 | 8,953 |
| Capital stock issued | 9,995 | 9,287 | 19,000 |

| Liabilities assumed | 266,758 | 139,016 | 100,348 |
|---|---|---|---|

See accompanying notes to consolidated financial statements.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) GENERAL

Glacier Bancorp, Inc. ("Company") is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation incorporated in 1990. The Company is a regional multi-bank holding company that provides a full range of banking services to individual and corporate customers in Montana, Idaho, Wyoming, Colorado, Utah and Washington through its bank subsidiaries. The bank subsidiaries are subject to competition from other financial service providers. The bank subsidiaries are also subject to the regulations of certain government agencies and undergo periodic examinations by those regulatory authorities.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses ("ALLL" or "allowance") and the valuations related to investments, business combinations, goodwill, deferred tax assets and real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the ALLL and other valuation estimates management obtains independent appraisals for significant items.

(B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its eleven wholly-owned operating subsidiaries as of December 31, 2009; Glacier Bank ("Glacier"), First Security Bank of Missoula ("First Security"), Western Security Bank ("Western"), Big Sky Western Bank ("Big Sky"), Valley Bank of Helena ("Valley"), and First Bank of Montana ("First Bank-MT"), all located in Montana, Mountain West Bank ("Mountain West") and Citizens Community Bank ("Citizens") located in Idaho, 1st Bank ("1st Bank") and First National Bank & Trust ("First National") located in Wyoming, and Bank of the San Juans ("San Juans") located in Colorado. All significant inter-company transactions have been eliminated in consolidation.

In addition, the Company owns seven trust subsidiaries, Glacier Capital Trust II ("Glacier Trust II"), Glacier Capital Trust III ("Glacier Trust III"), Glacier Capital Trust IV ("Glacier Trust IV"), Citizens (ID) Statutory Trust I ("Citizens Trust I"), Bank of the San Juans Bancorporation Trust I ("San Juans Trust I"), First Company Statutory Trust 2001 ("First Co Trust 01") and First Company Statutory Trust 2003 ("First Co Trust 03") for the purpose of issuing trust preferred securities and, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification(TM) ("ASC") Topic 810, Consolidation, the trust subsidiaries are not consolidated into the Company's financial statements. The Company does not have any other off-balance sheet entities.

On October 2, 2009, First Company and its subsidiary, First National, was acquired by the Company. On December 1, 2008, Bank of the San Juans Bancorporation and its subsidiary, San Juans, was acquired by the Company. The acquired banks became wholly-owned subsidiaries of the Company.

On February 1, 2009, First National Bank of Morgan ("Morgan") merged into 1st Bank resulting in operations being conducted under the 1st Bank charter. Prior period activity of Morgan has been combined and included in 1st Bank's historical results. On April 30, 2008, Glacier Bank of Whitefish ("Whitefish") merged into Glacier with operations conducted under the Glacier charter. The mergers were accounted for as a combination of two wholly-owned subsidiaries without acquisition accounting and prior period activity of the merged banks has been combined and included in the acquiring bank subsidiaries' historical results.

(C) VARIABLE INTEREST ENTITIES

FASB ASC Topic 810, Consolidation, provides guidance as to when a company should consolidate the assets, liabilities, and activities of a variable interest entity ("VIE") in its financial statements, and when a company should disclose information about its relationship with a VIE. A VIE is a legal structure used to conduct activities or hold assets, and a VIE must be consolidated by a company if it is the primary beneficiary that absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both. For additional information relating to 2009 amendments to this topic, see Note 22.





The Company has equity investments in Certified Development Entities ("CDE") which have received allocations of new market tax credits ("NMTC"). The Company also has equity investments in low-income housing tax credit ("LIHTC") partnerships. The CDE's and the LIHTC partnerships are VIE's. The underlying activities of the VIE's are community development projects designed primarily to promote community welfare, such as economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents. The maximum exposure to loss in the VIE's is the amount of equity invested or 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 and others and where the Company is the primary beneficiary of a VIE, the VIE has been consolidated into the bank subsidiary which holds the direct investment in the VIE. Currently, only CDE (NMTC) investments are consolidated into the Company's financial statements. For the CDE (NMTC) investments, the creditors and other beneficial interest holders have no recourse to the general credit of the bank subsidiaries. As of December 31, 2009, the Company had investments in VIE's of $30,513,000 and $2,331,000 for the CDE (NMTC) and LIHTC partnerships, respectively. The consolidated VIE's as well as the unconsolidated VIE's are regularly monitored by the Company to determine if any reconsideration events have occurred that could cause its primary beneficiary status to change.

(D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash held as demand deposits at various banks and regulatory agencies, interest bearing deposits, federal funds sold and liquid investments with original maturities of three months or less.

(E) INVESTMENT SECURITIES

Debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are stated at amortized cost. Debt and equity securities held primarily for the purpose of selling in the near term are classified as trading securities and are reported at fair market value, with unrealized gains and losses included in income. Debt and equity securities not classified as held-to-maturity or trading are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of income taxes, shown as a separate component of stockholders' equity. As of December 31, 2009 and 2008, the Company only has available-for-sale securities.

Premiums and discounts on investment securities are amortized or accreted into income using a method that approximates the level-yield interest method. The cost of any investment, if sold, is determined by specific identification. If impairment of securities is determined to be other-than-temporary, an impairment loss is recognized by reducing the amortized cost for the credit loss portion of the impairment with a corresponding charge to earnings for a like amount.

The Company holds stock in the Federal Home Loan Bank ("FHLB") and the Federal Reserve Bank ("FRB"). FHLB stock and FRB stock is restricted because such stock may only be sold to the FHLB or FRB at its par value. Due to restrictive terms, and the lack of a readily determinable market value, FHLB and FRB stocks are carried at cost.

For additional information relating to investment securities, see Note 3.

(F) LOANS RECEIVABLE

Loans that are intended to be held to maturity are reported at their unpaid principal balance less charge-offs, specific valuation accounts, and any deferred fees or costs on originated loans. Acquired loans are reported net of unamortized premiums or discounts. Interest income is reported on the interest method and includes discounts and premiums on acquired loans and net loan fees on originated loans which are amortized over the expected life of loans using methods that approximate the effective interest method. For additional information relating to loans, see Note 4.

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 unless the loan is in process of collection and well-secured by collateral the fair value of which is sufficient to pay off the debt in full. When a loan is placed on non-accrual status, interest previously accrued but not collected is reversed against current period interest income. Subsequent payments are applied to the outstanding principal balance if doubt remains as to the ultimate collectability of the loan. Interest accruals are 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.





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. The amount of the impairment is measured using 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 collateral dependent loans, impairment is measured by the fair value of the collateral less the cost to sell. When the ultimate collectability of the total principal of an impaired loan is in doubt and designated is non-accrual, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal on an impaired loan is not in doubt, contractual interest is generally credited to interest income when received under the cash basis method.

A restructured loan is considered a troubled debt restructuring 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's troubled debt restructuring loans are considered impaired loans.

(G) LOANS HELD FOR SALE

Mortgage and commercial loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized by charges to income. A sale is recognized when the Company surrenders control of the loan and consideration, other than beneficial interests in the loan, is received in exchange. A gain is recognized to the extent the selling price exceeds the carrying value.

(H) ALLOWANCE FOR LOAN AND LEASE LOSSES

Based upon management's analysis of the Company's loan and lease portfolio, the balance of the ALLL is an estimate of probable credit losses known and inherent in the loan and lease portfolio as of the date of the consolidated financial statements. The ALLL is increased by provisions for loan losses which are charged to expense. The portions of loan balances determined by management to be uncollectible are charged off in reduction of the allowance. Recoveries of amounts previously charged off are credited as an increase to the allowance.

The allowance for estimated losses on loans and leases is determined by each bank subsidiary based upon past loss experience, adjusted for changes in trends and conditions of certain items, including:

- Adverse situations that may affect specific borrowers' ability to repay;
- Current collateral values, where appropriate;
- Delinquencies and non-performing loans;
- Amount and timing of future cash flows expected on impaired loans;
- Criticized and classified loans;
- Credit concentrations by credit type, industry, geography;
- Recoveries and dispositions of balances previously charge-off;
- Volume and terms of loans;
- Loan size and complexity;
- Competition and bank size;
- Local market areas and national economic conditions;

- Effects of changes in lending policies and procedures;
- Experience, ability, and depth of lending management and credit administration staff; and
- Effects of legal and regulatory developments.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES . . . CONTINUED

Individually significant loans and major lending areas are reviewed periodically to determine potential problems at an early date. A loan is considered 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. The amount of the impairment is measured using 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 collateral dependent loans, impairment is measured by the fair value of the collateral less the cost to sell. The Company considers its investment in one-to-four family residential loans, consumer and home equity loans to be homogeneous and therefore evaluates such loans for impairment on a pooled basis.

(I) TEMPORARY VERSUS OTHER-THAN-TEMPORARY IMPAIRMENT

The Company views the determination of whether an investment security is temporarily or other-than-temporarily impaired as a critical accounting policy, as the estimate is susceptible to significant change from period to period because it requires management to make significant judgments, assumptions and estimates in the preparation of its consolidated financial statements. The Company assesses individual securities in its investment securities portfolio for impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant. An investment is impaired if the fair value of the security is less than its carrying value at the financial statement date. If impairment is determined to be other-than-temporary, an impairment loss is recognized by reducing the amortized cost for the credit loss portion of the impairment with a corresponding charge to earnings.

Management considers whether an investment security is other-than-temporarily impaired under the guidance promulgated in FASB ASC Topic 320, Investments - Debt and Equity Securities.

For additional information relating to investment securities, see Note 3.

In evaluating impaired securities for other-than-temporary impairment losses, management considers, among other things, (i) the severity and duration of the impairment, (ii) the credit ratings of the security, (iii) the overall deal structure, including the Company's position within the structure, the overall and near term financial performance of the issuer and underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. The Company also considers its intent and ability to retain the investment security for a period of time sufficient to allow for anticipated recovery in fair value. In so doing, the Company considers (i) contractual constraints, liquidity and capital needs of the Company, and (ii) management's approach to managing the investment portfolio including intent, if any, to dispose of impaired investment securities in periods subsequent to the impairment analysis date.

(J) PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less depreciation. Depreciation is computed on a straight-line method over the estimated useful lives or the term of the related lease. The estimated useful life for office buildings is 15 - 40 years and the estimated useful life for furniture, fixtures, and equipment is 3 - 10 years. Interest is capitalized for any significant building projects. For additional information relating to premises and equipment, see Note 5.

(K) REAL ESTATE OWNED

Property acquired by foreclosure or deed-in-lieu of foreclosure is carried at the lower of fair value at acquisition date or current estimated fair value, less selling costs. Costs, excluding interest, relating to the improvement of property are capitalized, whereas those relating to holding the property are charged to expense. Fair value is determined as the amount that could be reasonably expected in a current sale (other than a forced or liquidation sale) between a willing buyer and a willing seller. If the fair value of the asset minus the estimated cost to sell is less than the cost of the property, a loss is recognized in other expenses and the asset carrying value is reduced. Any gain or loss on disposition of real estate owned is recorded in other income or other expense.

(L) BUSINESS COMBINATIONS AND INTANGIBLE ASSETS

Acquisitions are accounted for as prescribed by FASB ASC Topic 805, Business Combinations. This Topic was amended January 1, 2009; for additional information relating to the amendment, see Note 22. Acquisition accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets. Goodwill is recorded if the purchase price exceeds the net fair value of assets acquired and a bargain purchase gain is recorded in other income if the net fair value of assets acquired exceeds the purchase price.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES . . . CONTINUED

Adjustment of the allocated purchase price may be related to fair value estimates for which all information has not been obtained on the acquired entity known or discovered during the allocation period, the period of time required to identify and measure the fair values of the assets and liabilities acquired in the business combination.

Core deposit intangible represents the intangible value of depositor relationships resulting from deposit liabilities assumed in acquisitions and are amortized using an accelerated method based on an estimated runoff of the related deposits, not exceeding 10 years. The useful life of the core deposit intangible is reevaluated on an annual basis, with any changes in estimated useful life accounted for prospectively over the revised remaining life. For additional information relating to core deposit intangibles, see Note 6.

On an annual basis, as required by FASB ASC Topic 350, Intangibles - Goodwill and Other, the Company tests goodwill and other intangible assets for impairment at the subsidiary level annually during the third quarter. In addition, goodwill and other intangible assets of a subsidiary are tested for impairment between annual tests if an event occurs or circumstances change that would more-likely-than not reduce the fair value of a reporting unit below its carrying amount. For additional information relating to goodwill, see Note 6.

(M) INCOME TAXES

Deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are reduced by a valuation allowance, if based on the weight of available evidence, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The term more-likely-than not means a likelihood of more than 50 percent. The recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to the Company's judgment. In assessing the need for a valuation allowance, the Company considers both positive and negative evidence. For additional information relating to income taxes, see Note 12.

(N) ADVERTISING AND PROMOTION

Advertising and promotion costs are recognized in the period incurred.

(O) STOCK-BASED COMPENSATION

Compensation cost related to the share-based payment transactions is recognized in the financial statements over the requisite service period, which is the vesting period. Compensation cost is measured using the fair value of an award on the grant date by using the Black Scholes option-pricing model. For additional information relating to stock-based compensation, see Note 15.

(P) LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is deemed impaired if the sum of the expected future cash flows is less than the carrying amount of the asset. If impaired, an impairment loss is recognized to reduce the carrying value of the asset to fair value. At December 31, 2009 and 2008, no assets were considered impaired.

43

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES . . . CONTINUED

(Q) MORTGAGE SERVICING RIGHTS

The Company recognizes the rights to service mortgage loans for others, whether acquired or internally originated. Loan servicing rights are initially recorded at fair value based on comparable market quotes and are amortized as other expense in proportion to and over the period of estimated net servicing income. Loan servicing rights are evaluated quarterly for impairment by discounting the expected future cash flows, taking into consideration the estimated level of prepayments based on current industry expectations and the predominant risk characteristics of the underlying loans including loan type, note rate and loan term. Impairment adjustments, if any, are recorded through a valuation allowance. For additional information relating to mortgage servicing rights, see Note 6.

As of December 31, 2009 and 2008, the carrying value of mortgage servicing rights was approximately $1,041,000 and $1,262,000, respectively. Amortization

expense of $250,000, $176,000, and $188,000 was recognized in the years ended December 31, 2009, 2008, and 2007, respectively. The servicing rights are included in other assets on the balance sheet and are amortized over the period of estimated net servicing income. There was no impairment of carrying value at December 31, 2009 or 2008. At December 31, 2009, the fair value of mortgage servicing rights was approximately $1,708,000.

(R) EARNINGS PER SHARE

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential shares had been issued, as well as any adjustment to income that would result from the issuance. Potential common shares that may be issued by the Company relate to outstanding stock options, and are determined using the treasury stock method. For additional information relating earnings per share, see Note 14.

(S) LEASES

The Company leases certain land, premises and equipment from third parties under operating and capital leases. The lease payments for operating lease agreements are recognized on a straight-line basis. The present value of the future minimum rental payments for capital leases is recognized as an asset when the lease is formed. Lease improvements incurred at the inception of the lease are recorded as an asset and depreciated over the initial term of the lease and lease improvements incurred subsequently are depreciated over the remaining term of the lease. For additional information relating to leases, see Note 19.

(T) COMPREHENSIVE INCOME

Comprehensive income includes net income, as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company's only significant element of other comprehensive income is unrealized gains and losses, net of tax expense (benefit), on available-for-sale securities.

(U) RECLASSIFICATIONS

Certain reclassifications have been made to the 2008 and 2007 financial statements to conform to the 2009 presentation.

2. CASH ON HAND AND IN BANKS

At December 31, 2009 and 2008, cash and cash equivalents primarily consisted of Federal funds sold, cash on hand, and cash items in process. The bank subsidiaries are required to maintain an average reserve balance with either the Federal Reserve or in the form of cash on hand. The amount of this required reserve balance at December 31, 2009 was $12,412,000.

The financial institutions holding the Company's cash accounts are participating in the Federal Deposit Insurance Corporation's ("FDIC") Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

At December 31, 2009, the Company had overnight Federal funds sold of $87,155,000, which are not guaranteed by the FDIC. The Company performs a quarterly review of the institutions at which balances are maintained. The review encompasses the financial condition of each institution including capital level, credit quality, earnings level, and other factors including trends affecting the financial condition of the institution.

3. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE

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

| | YEAR ENDED DECEMBER 31, 2009 | | | | |
|---|---|---|---|---|---|
| | | | GROSS UNREALIZED | | ES |
| (Dollars in thousands) | WEIGHTED YIELD | AMORTIZED COST | GAINS | LOSSES | |
| U.S. Government and federal agency: | | | | | |
| Maturing within one year .................... | 1.62% | $ 210 | -- | (1) | |
| Government sponsored enterprises: | | | | | |
| Maturing within one year .................... | 0.00% | -- | -- | -- | |
| Maturing after one year through five years ... | 3.21% | 74 | -- | -- | |
| Maturing after five years through ten years .. | 1.64% | 40 | -- | -- | |
| Maturing after ten years .................... | 2.05% | 63 | -- | -- | |
| | 2.43% | 177 | -- | -- | |
| State and local governments and other issues: | | | | | |
| Maturing within one year .................... | 2.48% | 2,040 | 6 | -- | |
| Maturing after one year through five years ... | 3.30% | 9,326 | 208 | (12) | |
| Maturing after five years through ten years .. | 3.84% | 27,125 | 786 | (168) | |
| Maturing after ten years .................... | 4.92% | 448,853 | 10,140 | (10,539) | |
| | 4.82% | 487,344 | 11,140 | (10,719) | |
| Residential mortgage-backed securities .......... | 3.42% | 956,033 | 15,167 | (16,158) | |
| Total marketable securities .............. | 3.89% | 1,443,764 | 26,307 | (26,878) | 1, |
| Other investments: | | | | | |
| FHLB and FRB stock, at cost .................. | 1.30% | 62,577 | -- | -- | |
| Other stock, at cost ........................ | 0.05% | 624 | -- | -- | |
| Total investments ........................ | 3.78% | $1,506,965 | 26,307 | (26,878) | 1, |



3. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE . . . CONTINUED

| | Year ended December 31, 2008 | |
|---|---|---|
| | Gross Unrealized | Est |

| (Dollars in thousands) | Weighted Yield | Amortized Cost | Gains | Losses | V |
|---|---|---|---|---|---|
| U.S. Government and federal agency: | | | | | |
| Maturing within one year .................... | 1.62% | $ 213 | 4 | -- | |
| Government sponsored enterprises: | | | | | |
| Maturing within one year .................... | 0.00% | -- | -- | -- | |
| Maturing after one year through five years ... | 0.00% | -- | -- | -- | |
| Maturing after five years through ten years .. | 4.12% | 246 | -- | (2) | |
| Maturing after ten years .................... | 3.75% | 68 | -- | -- | |
| | 4.04% | 314 | -- | (2) | |
| State and local governments and other issues: | | | | | |
| Maturing within one year .................... | 3.76% | 940 | 6 | -- | |
| Maturing after one year through five years ... | 4.61% | 4,482 | 104 | (9) | |
| Maturing after five years through ten years .. | 5.08% | 20,219 | 1,030 | (80) | 2 |
| Maturing after ten years .................... | 5.08% | 408,603 | 8,121 | (9,733) | 40 |
| | 5.07% | 434,244 | 9,261 | (9,822) | 43 |
| Residential mortgage-backed securities .......... | 4.62% | 495,961 | 4,956 | (6,447) | 49 |
| Total marketable securities .............. | 4.83% | 930,732 | 14,221 | (16,271) | 92 |
| Other investments: | | | | | |
| FHLB and FRB stock, at cost ................. | 1.72% | 60,945 | -- | -- | 6 |
| Other stock, at cost ........................ | 3.10% | 465 | -- | -- | |
| Total investments ........................ | 4.64% | $992,142 | 14,221 | (16,271) | 99 |

Maturities of securities do not reflect repricing opportunities present in adjustable rate securities, nor do they reflect expected shorter maturities based upon early prepayment of principal. Weighted yields on tax-exempt investment securities exclude the tax effect.

The amortized cost of securities at December 31, 2007 was as follows:

| (Dollars in thousands) | December 31, 2007 |
|---|---|
| U.S. Government and federal agency ................ | $ 2,550 |
| Government sponsored enterprises .................. | 1,314 |
| State and local governments and other issues ....... | 277,212 |
| Residential mortgage-backed securities ............ | 346,085 |
| FHLMC and FNMA stock ............................. | 7,593 |
| Certificates of deposit with over 90 day maturity .. | 199 |
| FHLB and FRB stock ............................... | 59,815 |
| Other stock ...................................... | 413 |
| | $695,181 |

3. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE . . . CONTINUED

Interest income includes tax-exempt interest for the years ended December 31, 2009, 2008, and 2007 of $22,196,000, $13,901,000, and $13,427,000, respectively.

Gross proceeds from sales of investment securities for the years ended December 31, 2009, 2008, and 2007 were approximately $85,224,000, $97,002,000 and $55,501,000, respectively, resulting in gross gains of approximately $7,113,000, $0 and $1,000 and gross losses of approximately $1,118,000, $0 and $9,000 respectively. During the first quarter of 2008, the Company realized a gain of $130,000 from extinguishment of the Company's share ownership in Principal Financial Group and a gain of $118,000 from the mandatory redemption of a portion of Visa, Inc. shares from its recent initial public offering. During the third quarter of 2008, the Company incurred a $7,593,000 other-than-temporary impairment ("OTTI") charge with respect to its investments in Federal Home Loan Mortgage Corporation ("Freddie Mac") preferred stock and Federal National Mortgage Association ("Fannie Mae") common stock. The Fannie Mae and Freddie Mac stock was written down to a $0 value, however, the shares were still owned by the Company at December 31, 2009. The cost of any investment sold is determined by specific identification.

At December 31, 2009, the Company had investment securities with carrying values of approximately $1,114,749,000, pledged as collateral for FHLB advances, FRB borrowings, securities sold under agreements to repurchase, U.S. Treasury Tax and Loan borrowings and deposits of several local government units.

The investments in FHLB stock are required investments related to the Company's borrowings from FHLB. FHLB obtains its funding primarily through issuance of consolidated obligations of the FHLB system. The U.S. Government does not guarantee these obligations, and each of the 12 FHLBs are jointly and severally liable for repayment of each other's debt.

The following is a summary of investments with unrealized loss positions at December 31, 2009:

| | LESS THAN 12 MONTHS | | 12 MONTHS OR MORE | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | FAIR VALUE | UNREALIZED LOSS | FAIR VALUE | UNREALIZED LOSS | |
| U.S. Government and federal agency ........... | $ 208 | 1 | -- | -- | |
| State and local governments and other issues .. | 74,045 | 1,835 | 18,094 | 985 | |
| Collateralized debt obligations .............. | 6,789 | 7,899 | -- | -- | |
| Residential mortgage-backed securities ........ | 466,196 | 3,861 | 39,780 | 12,297 | 5 |
| Total temporarily impaired securities ...... | $547,238 | 13,596 | 57,874 | 13,282 | 6 |

The following is a summary of investments with unrealized loss positions at December 31, 2008:

| | Less than 12 months | | 12 Months or More | | |
|---|---|---|---|---|---|

| (Dollars in thousands) | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | |
|---|---|---|---|---|---|
| Government sponsored enterprises ............. | $ 104 | 1 | 205 | 1 | |
| State and local governments and other issues .. | 142,826 | 9,772 | 1,621 | 50 | 1 |
| Residential mortgage-backed securities ........ | 116,004 | 5,758 | 12,403 | 689 | 1 |
| Total temporarily impaired securities ...... | $258,934 | 15,531 | 14,229 | 740 | 2 |



3. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE . . . CONTINUED

The Company assesses individual securities in its investment securities portfolio for impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant. An investment is impaired if the fair value of the security is less than its carrying value at the financial statement date. If impairment is determined to be other-than-temporary, an impairment loss is recognized by reducing the amortized cost for the credit loss portion of the impairment with a corresponding charge to earnings.

For fair value estimates provided by third party vendors, management also considered the models and methodology, for appropriate consideration of both observable and unobservable inputs, including appropriately adjusted discount rates and credit spreads for securities with limited or inactive markets, and whether the quoted prices reflect orderly transactions, For certain securities, the Company obtained independent estimates of inputs, including cash flows, in supplement to third party vendor provided information. The Company also reviewed financial statements of select issuers, with follow up discussions with issuers' management for clarification and verification of information relevant to the Company's impairment analysis.

In evaluating debt securities for other-than-temporary impairment losses, management assesses whether the Company intends to sell or if it is more likely-than-not that it will be required to sell impaired debt securities. In so doing, management considers contractual constraints, liquidity, capital, asset / liability management and securities portfolio objectives. With respect to its impaired debt securities at December 31, 2009, management determined that it does not intend to sell and that there is no expected requirement to sell any of its impaired debt securities.

As of December 31, 2009, there were 273 investments in an unrealized loss position and were considered to be temporarily impaired and therefore an impairment charge has not been recorded. All of such temporarily impaired investments are debt securities. Residential mortgage-backed securities have the largest unrealized loss. The fair value of these securities, which have underlying collateral consisting of U.S. government sponsored enterprise guaranteed mortgages and non-guaranteed private label whole loan mortgages, were $505,976,000 at December 31, 2009 of which $454,516,000 was purchased during 2009, the remainder of which had a fair market value of $73,624,000 at December 31, 2008. For the securities purchased in 2009 there has been an unrealized loss of $3,607,000 since purchase. Of the remaining residential mortgage-backed securities in a loss position the unrealized loss increased from 8.3 percent of fair value at December 31, 2008 to 24.4 percent of fair value at December 31, 2009. The fair value of Collateralized Debt Obligation securities in an unrealized loss position is $6,789,000 with unrealized losses of $7,899,000 or

116 percent of fair value at December 31, 2009; such investments had an unrealized gain position at December 31, 2008. The fair value of State and Local Government were $92,139,000 at December 31, 2009 of which $42,703,000 was purchased during 2009, the remainder of which had a fair market value of $47,907,000 at December 31, 2008. For the securities purchased in 2009 there has been an unrealized loss of $1,212,000 since purchase. Of the remaining State and Local Government securities in a loss position the unrealized loss decreased from 10.1 percent of fair value at December 31, 2008 to 3.3 percent of fair value at December 31, 2009.

The Company stratified the 273 debt securities for both severity and duration of impairment. With respect to severity, the following table provides the number of securities and amount of unrealized loss in the various ranges of unrealized loss as a percent of book value.

| (Dollars in thousands) | Unrealized Loss | Number of Bonds |
|---|---|---|
| Greater than 40.0% | $ 7,859 | 6 |
| 30.1% to 40.0% | 1,370 | 1 |
| 20.1% to 30.0% | 7,160 | 5 |
| 15.1% to 20.0% | 4,180 | 10 |
| 10.1% to 15.0% | 125 | 3 |
| 5.1% to 10.0% | 705 | 14 |
| 0.1% to 5.0% | 5,479 | 234 |
| Total | $26,878 | 273 |



3. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE . . . CONTINUED

With respect to the duration of the impaired securities, the Company identified 39 securities which have been continuously impaired for the 12 months ending December 31, 2009. The valuation history of such securities in the prior year(s) was also reviewed to determine the number of months in prior year(s) in which the identified securities was in an unrealized loss position. 13 of these 39 securities are non-guaranteed, non-Agency CMOs with an aggregate unrealized loss of $12,291,000, the most notable of which had an unrealized loss of $1,536,000. 17 of the 39 securities are state and local tax-exempt securities with an unrealized loss of $985,000, the most notable of which had an unrealized loss of $233,000. 8 of the 39 securities are residential mortgage-backed securities issued by U.S. government sponsored agencies, i.e., GNMA, FNMA, FHLMC and SBA, the aggregate unrealized loss of which was $6,000.

For impaired debt securities for which there was no intent or expected requirement to sell, management considers available evidence to assess whether it is more likely-than-not that all amounts due would not be collected In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligors, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates.

Based on an analysis of its impaired securities as of December 31, 2009, the Company determined that none of such securities had other-than-temporary impairment.

4. LOANS RECEIVABLE, NET AND LOANS HELD FOR SALE

The following is a summary of loans receivable, net and loans held for sale at:

| (Dollars in thousands) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Residential real estate | $ 746,050 | 786,869 |
| Loans held for sale | 66,330 | 54,976 |
| Commercial real estate | 1,900,438 | 1,935,341 |
| Other commercial | 724,966 | 645,033 |
| Consumer | 201,001 | 208,166 |
| Home equity | 501,920 | 507,831 |
| | 4,140,705 | 4,138,216 |
| Net deferred loan fees, premiums and discounts | (10,460) | (8,023) |
| | 4,130,245 | 4,130,193 |
| Allowance for loan and lease losses | (142,927) | (76,739) |
| | $3,987,318 | 4,053,454 |

Substantially all of the loans held for sale at December 31, 2009 and 2008 were committed to be sold. At December 31, 2009, the Company had $2,571,047,000 in variable rate loans and $1,569,658,000 in fixed rate loans. The weighted average interest rate on loans was 6.06 percent and 6.93 percent at December 31, 2009 and 2008, respectively. At December 31, 2009, 2008 and 2007, loans sold and serviced for others were $176,231,000, $181,351,000, and $177,173,000, respectively. At December 31, 2009, the Company had loans of approximately $2,502,684,000 pledged as collateral for FHLB advances, FRB and U.S. Treasury Tax and Loan borrowings.

Substantially all of the Company's loan receivables are with customers within the Company's market areas. Although the Company has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the economic performance in the Company's market areas. The bank subsidiaries are subject to regulatory limits for the amount of loans to any individual borrower and all bank subsidiaries are in compliance as of December 31, 2009. No borrower had outstanding loans or commitments exceeding 10 percent of the Company's consolidated stockholders' equity as of December 31, 2009.

The Company has entered into transactions with its executive officers, directors, significant shareholders, and their affiliates. The aggregate amount of loans to such related parties at December 31, 2009 and 2008 was approximately $86,037,000 and $92,107,000, respectively. During 2009, new loans to such related parties were approximately $18,882,000 and repayments were approximately $24,952,000.

4. LOANS RECEIVABLE, NET AND LOANS HELD FOR SALE . . . CONTINUED

The following is a summary of activity in the ALLL:

| (Dollars in thousands) | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Balance at beginning of period .. | $ 76,739 | 54,413 | 49,259 |
| Acquisitions ................... | -- | 2,625 | 639 |
| Net charge offs ................ | (58,430) | (8,779) | (2,165) |
| Provision ...................... | 124,618 | 28,480 | 6,680 |
| Balance at end of period ....... | $142,927 | 76,739 | 54,413 |

The increase in the ALLL was primarily due to the increase in non-performing assets since December 31, 2008 and a downturn in global, national and local economies.

Following is the allocation of the ALLL and the percent of loans in each category at:

| | DECEMBER 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| (Dollars in thousands) | AMOUNT | PERCENT OF OF LOANS IN CATEGORY | Amount | Percent of Loans Categor |
| Residential real estate and loans held for sale .. | $ 13,496 | 19.6% | $ 7,233 | 20.3% |
| Commercial real estate .......................... | 66,791 | 45.9% | 35,305 | 46.8% |
| Other commercial ................................ | 39,558 | 17.5% | 21,590 | 15.6% |
| Consumer ........................................ | 9,663 | 4.9% | 5,636 | 5.0% |
| Home equity ..................................... | 13,419 | 12.1% | 6,975 | 12.3% |
| | $142,927 | 100.0% | $76,739 | 100.0% |

The following is a summary of the non-performing loans:

| (Dollars in thousands) | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Impaired loans ................................ | $218,742 | 79,949 | 12,152 |
| Average recorded investment in impaired loans .. | 145,230 | 40,985 | 7,311 |
| Impairment allowance .......................... | 19,760 | 7,999 | 2,827 |
| Non-accrual loans ............................. | 198,281 | 64,301 | 8,560 |

| | | | |
|---|---|---|---|
| Accruing loans 90 days or more overdue ......... | 5,537 | 8,613 | 2,685 |

As of December 31, 2009, the Company had impaired loans without a valuation allowance of $141,613,000 and impaired loans with a valuation allowance of $77,129,000. Interest income that would have been recorded on non-accrual loans if such loans had been current for the entire period would have been approximately $11,730,000, $4,434,000, and $683,000 for the years ended December 31, 2009, 2008, and 2007. Interest income recognized on non-accruing loans for the years ended December 31, 2009, 2008, and 2007 was not significant.

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit, and involve, to varying degrees, elements of credit risk. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.





The Company's troubled debt restructuring loans are included in the amount of impaired loans. As of December 31, 2009, the Company had troubled debt restructuring loans of $64,618,000, of which there were $1,245,000 of additional outstanding commitments. The amount of charge-offs on troubled debt restructuring loans during 2009 was $7,776,000.

The Company had outstanding commitments as follows:

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 2009 | 2008 |
| Loans and loans in process ......... | $457,754 | 648,788 |
| Unused consumer lines of credit .... | 286,621 | 272,181 |
| Letters of credit ................. | 28,691 | 36,934 |
| | $773,066 | 957,903 |

5. PREMISES AND EQUIPMENT, NET

Premises and equipment, net of accumulated depreciation, consist of the following at:

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 2009 | 2008 |

| | | |
|---|---|---|
| Land ............................. | $ 23,315 | 20,633 |
| Office buildings and construction in progress .................... | 119,420 | 113,742 |
| Furniture, fixtures and equipment .. | 58,013 | 53,593 |
| Leasehold improvements ............ | 8,969 | 7,528 |
| Accumulated depreciation .......... | (68,796) | (61,547) |
| | $140,921 | 133,949 |

Depreciation expense for the years ended December 31, 2009, 2008, and 2007 was $10,450,000, $9,814,000, and $8,508,000, respectively. Interest expense capitalized for various construction projects for the years ended December 31, 2009, 2008 and 2007 was $33,000, $71,000 and $264,000, respectively.

51

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table sets forth information regarding the Company's core deposit intangibles and mortgage servicing rights:

| (Dollars in thousands) | Core Deposit Intangible | Mortgage Servicing Rights(1) | Total |
|---|---|---|---|
| AS OF DECEMBER 31, 2009 | | | |
| Gross carrying value | $ 31,847 | | |
| Accumulated amortization | (17,910) | | |
| Net carrying value | $ 13,937 | 1,041 | 14,978 |
| AS OF DECEMBER 31, 2008 | | | |
| Gross carrying value | $ 27,807 | | |
| Accumulated amortization | (14,794) | | |
| Net carrying value | $ 13,013 | 1,262 | 14,275 |
| WEIGHTED-AVERAGE AMORTIZATION PERIOD (Period in years) | 9.1 | 9.4 | 9.1 |
| AGGREGATE AMORTIZATION EXPENSE | | | |
| For the year ended December 31, 2009 | $ 3,116 | 250 | 3,366 |
| For the year ended December 31, 2008 | 3,051 | 176 | 3,227 |
| For the year ended December 31, 2007 | 3,202 | 188 | 3,390 |
| ESTIMATED AMORTIZATION EXPENSE | | | |
| For the year ended December 31, 2010 | $ 2,603 | 74 | 2,677 |
| For the year ended December 31, 2011 | 1,895 | 72 | 1,967 |
| For the year ended December 31, 2012 | 1,534 | 70 | 1,604 |
| For the year ended December 31, 2013 | 1,283 | 68 | 1,351 |
| For the year ended December 31, 2014 | 1,034 | 65 | 1,099 |

(1) Gross carrying value and accumulated amortization are not readily available

The following is a summary of activity in goodwill for the years ended December

31, 2009 and 2008:

| (Dollars in thousands) | Years ended December 31, 2009 | 2008 |
|---|---|---|
| Balance at beginning of period | $146,752 | 140,301 |
| Acquisition of San Juans | (493) | 6,451 |
| Balance at end of period | $146,259 | 146,752 |



7. DEPOSITS

Deposits consist of the following at:

| (Dollars in thousands) | December 31, 2009 | | 2008 | |
|---|---|---|---|---|
| Demand accounts .............................. | $ 810,550 | 19.8% | 747,439 | 22.9% |
| NOW accounts ................................. | 749,535 | 18.3% | 515,211 | 15.8% |
| Savings accounts ............................. | 324,234 | 7.9% | 280,895 | 8.6% |
| Money market demand accounts ................. | 907,949 | 22.1% | 779,154 | 23.9% |
| Certificates of deposit ...................... | 1,307,884 | 31.9% | 939,776 | 28.8% |
| Total interest bearing deposits ........... | 3,289,602 | 80.2% | 2,515,036 | 77.1% |
| Total deposits ............................ | $4,100,152 | 100.0% | 3,262,475 | 100.0% |
| Deposits with a balance $100,000 and greater .. | $2,315,750 | | 1,621,430 | |

At December 31, 2009, scheduled maturities of certificates of deposit are as follows:

| (Dollars in thousands) | TOTAL | Years ending December 31, 2010 | 2011 | 2012 | 2013 | Thereafter |
|---|---|---|---|---|---|---|
| 1.00% and lower ...... | $ 170,133 | 169,896 | 36 | 194 | 7 | -- |
| 1.01% to 2.00% ....... | 590,288 | 553,632 | 33,922 | 1,844 | 356 | 534 |
| 2.01% to 3.00% ....... | 379,977 | 280,048 | 64,292 | 29,374 | 1,724 | 4,539 |
| 3.01% to 4.00% ....... | 93,894 | 48,593 | 23,189 | 4,807 | 5,806 | 11,499 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 4.01% to 5.00% ....... | 43,226 | 26,662 | 8,863 | 4,445 | 3,069 | 187 |
| 5.01% to 6.00% ....... | 30,098 | 12,429 | 10,849 | 6,598 | 101 | 121 |
| 6.01% to 7.00% ....... | 246 | 120 | 126 | -- | -- | -- |
| 7.01% to 8.00% ....... | 22 | -- | -- | 22 | -- | -- |
| | $1,307,884 | 1,091,380 | 141,277 | 47,284 | 11,063 | 16,880 |

Interest expense on deposits is summarized as follows:

| (Dollars in thousands) | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| NOW accounts ............................ | $ 2,280 | 3,014 | 4,708 |
| Savings accounts ........................ | 947 | 1,865 | 2,679 |
| Money market demand accounts ............ | 8,564 | 17,234 | 27,248 |
| Certificates of deposit ................. | 26,638 | 32,899 | 46,824 |
| | $38,429 | 55,012 | 81,459 |

The Company reclassified approximately $2,894,000 and $3,199,000 of overdraft demand deposits to loans as of December 31, 2009 and 2008, respectively. NOW, money market demand and certificates of deposit totals include wholesale deposits of $350,760,000 as of December 31, 2009. The Company has entered into deposit transactions with its executive officers, directors, significant shareholders, and their affiliates. The aggregate amount of deposits with such related parties at December 31, 2009, and 2008 was approximately $53,082,000 and $59,343,000, respectively.

53

8. BORROWINGS

Advances from the FHLB consist of the following:

| | Maturing in Years ending December 31, | | | | | | Totals as of December 31, | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter | 2009 | 2008 |
| 0.00% to 1.00% ....... | $585,282 | -- | -- | -- | -- | -- | 585,282 | 175,900 |
| 1.01% to 2.00% ....... | -- | -- | -- | -- | -- | -- | -- | -- |
| 2.01% to 3.00% ....... | -- | -- | -- | -- | -- | 20,000 | 20,000 | -- |
| 3.01% to 4.00% ....... | -- | -- | 40,000 | -- | -- | 100,000 | 140,000 | 116,000 |
| 4.01% to 5.00% ....... | 750 | 207 | 42,000 | -- | -- | 779 | 43,736 | 45,142 |
| 5.01% to 6.00% ....... | -- | -- | -- | -- | -- | 1,074 | 1,074 | 1,091 |
| 6.01% to 7.00% ....... | 25 | -- | -- | -- | -- | 250 | 275 | 323 |
| | $586,057 | 207 | 82,000 | -- | -- | 122,103 | 790,367 | 338,456 |

======== === ====== === === ======= ======= =======

In addition to specifically pledged loans and investment securities, the FHLB advances are collateralized by FHLB stock owned by the Company and a blanket assignment of the unpledged qualifying loans and investments. The total amount of advances available as of December 31, 2009 was approximately $309,476,000. The weighted average fixed interest rate on these advances was 1.14 percent and 2.10 percent at December 31, 2009 and 2008, respectively.

With respect to $202,000,000 of advances at December 31, 2009, the FHLB holds put options that will be exercised on the quarterly measurement date, after the initial call date, if three month LIBOR is greater than 8%. The FHLB put options as of December 31, 2009 are summarized as follows:

(Dollars in thousands)

| Amount | Interest Rate | Maturity | Earliest Call |
|---|---|---|---|
| $ 82,000 | 3.49% - 4.83% | 2012 | 2010 |
| 75,000 | 3.16% - 4.64% | 2015 | 2010 |
| 45,000 | 2.93% - 3.05% | 2016 | 2010 |
| $202,000 | | | |

The Company had borrowings through the FRB of $225,000,000 and $914,000,000 as of December 31, 2009 and 2008, respectively. The borrowings have a weighted average fixed interest rate of 0.26 percent, mature in 2010 and are collateralized by loans and investments with an available balance of $564,414,000 as of December 31, 2009.

The Company had U.S. Treasury Tax and Loan borrowings of $5,136,000 and $6,067,000 as of December 31, 2009 and 2008, respectively. The borrowings as of December 31, 2009 are short term and have an interest rate of fed funds less 25 basis points and are collateralized with loans and investments with an available balance of $9,060,000.

54

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase consist of the following at:

| December 31, 2009 (Dollars in thousands) | REPURCHASE AMOUNT | WEIGHTED AVERAGE FIXED RATE | BOOK VALUE OF UNDERLYING ASSETS | MARKET VALUE OF UNDERLYING ASSETS |
|---|---|---|---|---|
| Securities sold under agreements to repurchase within: | | | | |

| | | | | |
|---|---|---|---|---|
| Overnight .................. | $210,132 | 0.92% | $210,449 | 206,450 |
| Term up to 30 days .......... | 410 | 2.75% | 476 | 487 |
| Term over 90 days ........... | 1,964 | 2.34% | 2,284 | 2,339 |
| | $212,506 | 0.94% | $213,209 | 209,276 |

| December 31, 2008 (Dollars in thousands) | | | | |
|---|---|---|---|---|
| Securities sold under agreements to repurchase within: | | | | |
| Overnight .................. | $186,217 | 1.22% | $201,185 | 191,985 |
| Term 30 - 90 days .......... | 2,146 | 2.74% | -- | -- |
| | $188,363 | 1.23% | $201,185 | 191,985 |

The securities, consisting of U.S. Agency and U.S. Government Sponsored Enterprises issued or guaranteed residential mortgage-backed securities, subject to agreements to repurchase are for the same securities originally sold, and are held in a custody account by a third party. For the years ended December 31, 2009 and 2008, securities sold under agreements to repurchase averaged approximately $204,503,000 and $188,952,000, respectively, and the maximum outstanding at any month end during the year was approximately $234,914,000 and $196,461,000, respectively.

55

10. SUBORDINATED DEBENTURES

Trust Preferred Securities were issued by the Company's seven trust subsidiaries, the common stock of which is wholly-owned by the Company, in conjunction with the Company issuing Subordinated Debentures to the trust subsidiaries. The terms of the Subordinated Debentures are the same as the terms of the Trust Preferred Securities. The Company guaranteed the payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by the trust subsidiaries. The obligations of the Company under the Subordinated Debentures together with the guarantee and other back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of all trusts under the Trust Preferred Securities.

The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity date or the earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. Interest distributions are payable quarterly. The Company may defer the payment of interest at any time from time to time for a period not exceeding 20 consecutive quarters provided that the deferral period does not extend past the stated maturity. During any such deferral period, distributions on the Trust Preferred Securities will also be deferred and the Company's ability to pay dividends on its common shares will be restricted.

Subject to approval by the FRB, the Trust Preferred Securities may be redeemed

at par prior to maturity at the Company's option on or after the redemption date. The Trust Preferred Securities may also be redeemed at any time in whole (but not in part) for the Trusts in the event of unfavorable changes in laws or regulations that result in (1) subsidiary trusts becoming subject to federal income tax on income received on the Subordinated Debentures, (2) interest payable by the Company on the Subordinated Debentures becoming non-deductible for federal tax purposes, (3) the requirement for the trusts to register under the Investment Company Act of 1940, as amended, or (4) loss of the ability to treat the Trust Preferred Securities as "Tier 1 Capital" under the FRB capital adequacy guidelines.

The terms of the Subordinated Debentures, arranged by maturity date, are reflected in the table below. The amounts include fair value adjustments from acquisitions.

| (Dollars in thousands) | Amount | Rate at December 31, 2009 | Fixed/ Variable | Variable R Structure |
|---|---|---|---|---|
| First Co Trust 01 .................... | $ 2,766 | 3.581% | Variable | 3 mo LIBOR plu |
| First Co Trust 03 .................... | 2,047 | 3.501% | Variable | 3 mo LIBOR plu |
| Glacier Capital Trust II ............. | 46,393 | 3.034% | Variable | 3 mo LIBOR plu |
| Citizens Capital Trust I ............. | 5,155 | 2.903% | Variable | 3 mo LIBOR plu |
| Glacier Capital Trust III ............ | 36,083 | 6.078% | Fixed 5 years | 3 mo LIBOR plu |
| Glacier Capital Trust IV ............. | 30,928 | 7.235% | Fixed 5 years | 3 mo LIBOR plu |
| San Juan Trust I ..................... | 1,616 | 6.681% | Fixed 5 years | 3 mo LIBOR plu |
| | $124,988 | | | |

(1) For fixed rate debentures, this will be the rate structure upon conversion to variable rate.

56

11. REGULATORY CAPITAL

The FRB has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in supervising a bank holding company. The following table illustrates the FRB's adequacy guidelines and the Company's and bank subsidiaries' compliance with those guidelines as of December 31, 2009.

| | Actual | | Minimum Capital Requirement | | Well Capitalized Requirement | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Consolidated ....................... | 656,880 | 14.02% | 187,439 | 4.00% | 281,158 | 6.00% |
| Glacier ............................ | 128,765 | 12.33% | 41,781 | 4.00% | 62,672 | 6.00% |
| Mountain West ...................... | 129,649 | 13.39% | 38,728 | 4.00% | 58,092 | 6.00% |
| First Security ..................... | 99,762 | 14.91% | 26,756 | 4.00% | 40,135 | 6.00% |

| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
|---|---|---|---|---|---|---|
| 1st Bank ............................ | 58,119 | 14.99% | 15,504 | 4.00% | 23,256 | 6.00% |
| Western ............................ | 61,594 | 14.67% | 16,794 | 4.00% | 25,191 | 6.00% |
| Big Sky ............................ | 49,766 | 16.06% | 12,393 | 4.00% | 18,589 | 6.00% |
| Valley ............................. | 28,495 | 13.11% | 8,694 | 4.00% | 13,041 | 6.00% |
| First National ..................... | 29,517 | 15.98% | 7,390 | 4.00% | 11,084 | 6.00% |
| Citizens ........................... | 22,201 | 11.32% | 7,844 | 4.00% | 11,766 | 6.00% |
| First Bank-MT ...................... | 18,437 | 12.73% | 5,794 | 4.00% | 8,691 | 6.00% |
| San Juans .......................... | 17,942 | 11.11% | 6,462 | 4.00% | 9,693 | 6.00% |
| Total capital (to risk weighted assets) | | | | | | |
| Consolidated ....................... | 716,498 | 15.29% | 374,877 | 8.00% | 468,597 | 10.00% |
| Glacier ............................ | 142,142 | 13.61% | 83,562 | 8.00% | 104,453 | 10.00% |
| Mountain West ...................... | 142,066 | 14.67% | 77,456 | 8.00% | 96,820 | 10.00% |
| First Security ..................... | 108,246 | 16.18% | 53,513 | 8.00% | 66,891 | 10.00% |
| 1st Bank ........................... | 63,039 | 16.26% | 31,009 | 8.00% | 38,761 | 10.00% |
| Western ............................ | 66,886 | 15.93% | 33,588 | 8.00% | 41,985 | 10.00% |
| Big Sky ............................ | 53,721 | 17.34% | 24,786 | 8.00% | 30,982 | 10.00% |
| Valley ............................. | 31,232 | 14.37% | 17,388 | 8.00% | 21,734 | 10.00% |
| First National ..................... | 31,196 | 16.89% | 14,779 | 8.00% | 18,474 | 10.00% |
| Citizens ........................... | 24,682 | 12.59% | 15,688 | 8.00% | 19,610 | 10.00% |
| First Bank-MT ...................... | 20,261 | 13.99% | 11,588 | 8.00% | 14,485 | 10.00% |
| San Juans .......................... | 19,988 | 12.37% | 12,924 | 8.00% | 16,155 | 10.00% |
| Leverage capital (to average assets) | | | | | | |
| Consolidated ....................... | 656,880 | 11.20% | 234,518 | 4.00% | N/A | N/A |
| Glacier ............................ | 128,765 | 10.09% | 51,043 | 4.00% | 63,803 | 5.00% |
| Mountain West ...................... | 129,649 | 10.98% | 47,217 | 4.00% | 59,021 | 5.00% |
| First Security ..................... | 99,762 | 11.32% | 35,237 | 4.00% | 44,046 | 5.00% |
| 1st Bank ........................... | 58,119 | 9.74% | 23,865 | 4.00% | 29,832 | 5.00% |
| Western ............................ | 61,594 | 10.19% | 24,185 | 4.00% | 30,231 | 5.00% |
| Big Sky ............................ | 49,766 | 13.67% | 14,561 | 4.00% | 18,201 | 5.00% |
| Valley ............................. | 28,495 | 8.57% | 13,297 | 4.00% | 16,621 | 5.00% |
| First National ..................... | 29,517 | 10.38% | 11,376 | 4.00% | 14,220 | 5.00% |
| Citizens ........................... | 22,201 | 9.62% | 9,227 | 4.00% | 11,534 | 5.00% |
| First Bank-MT ...................... | 18,437 | 9.19% | 8,020 | 4.00% | 10,026 | 5.00% |
| San Juans .......................... | 17,942 | 10.33% | 6,948 | 4.00% | 8,685 | 5.00% |

57

11. REGULATORY CAPITAL . . . CONTINUED

The following table illustrates the FRB's adequacy guidelines and the Company's and bank subsidiaries' compliance with those guidelines as of December 31, 2008:

| | Actual | | Minimum Capital requirement | | Well Capitalized requirement | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Consolidated ....................... | 640,275 | 14.30% | 179,117 | 4.00% | 268,676 | 6.00% |
| Glacier ............................ | 119,748 | 11.31% | 42,341 | 4.00% | 63,512 | 6.00% |
| Mountain West ...................... | 101,315 | 10.62% | 38,151 | 4.00% | 57,226 | 6.00% |
| First Security ..................... | 96,800 | 14.29% | 27,088 | 4.00% | 40,632 | 6.00% |
| 1st Bank ........................... | 38,527 | 12.58% | 12,252 | 4.00% | 18,378 | 6.00% |
| Western ............................ | 59,825 | 13.26% | 18,043 | 4.00% | 27,065 | 6.00% |
| Big Sky ............................ | 38,561 | 11.89% | 12,974 | 4.00% | 19,462 | 6.00% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Valley ............................. | 29,269 | 13.65% | 8,574 | 4.00% | 12,861 | 6.00% |
| Citizens ........................... | 19,564 | 10.84% | 7,217 | 4.00% | 10,826 | 6.00% |
| First Bank-MT ...................... | 15,149 | 11.70% | 5,179 | 4.00% | 7,769 | 6.00% |
| San Juans .......................... | 13,490 | 9.26% | 5,830 | 4.00% | 8,745 | 6.00% |
| Total capital (to risk weighted assets) | | | | | | |
| Consolidated ....................... | 696,505 | 15.55% | 358,234 | 8.00% | 447,793 | 10.00% |
| Glacier ............................ | 133,051 | 12.57% | 84,682 | 8.00% | 105,853 | 10.00% |
| Mountain West ...................... | 113,287 | 11.88% | 76,302 | 8.00% | 95,377 | 10.00% |
| First Security ..................... | 105,303 | 15.55% | 54,176 | 8.00% | 67,719 | 10.00% |
| 1st Bank ........................... | 42,370 | 13.83% | 24,504 | 8.00% | 30,630 | 10.00% |
| Western ............................ | 65,481 | 14.52% | 36,087 | 8.00% | 45,108 | 10.00% |
| Big Sky ............................ | 42,642 | 13.15% | 25,949 | 8.00% | 32,436 | 10.00% |
| Valley ............................. | 31,959 | 14.91% | 17,148 | 8.00% | 21,435 | 10.00% |
| Citizens ........................... | 21,825 | 12.10% | 14,434 | 8.00% | 18,043 | 10.00% |
| First Bank-MT ...................... | 16,772 | 12.95% | 10,358 | 8.00% | 12,948 | 10.00% |
| San Juans .......................... | 15,322 | 10.51% | 11,660 | 8.00% | 14,575 | 10.00% |
| Leverage capital (to average assets) | | | | | | |
| Consolidated ....................... | 640,275 | 12.38% | 206,812 | 4.00% | N/A | N/A |
| Glacier ............................ | 119,748 | 9.79% | 48,929 | 4.00% | 61,161 | 5.00% |
| Mountain West ...................... | 101,315 | 8.68% | 46,707 | 4.00% | 58,383 | 5.00% |
| First Security ..................... | 96,800 | 11.31% | 34,229 | 4.00% | 42,786 | 5.00% |
| 1st Bank ........................... | 38,527 | 8.08% | 19,077 | 4.00% | 23,847 | 5.00% |
| Western ............................ | 59,825 | 10.71% | 22,335 | 4.00% | 27,919 | 5.00% |
| Big Sky ............................ | 38,561 | 11.62% | 13,272 | 4.00% | 16,589 | 5.00% |
| Valley ............................. | 29,269 | 9.11% | 12,846 | 4.00% | 16,058 | 5.00% |
| Citizens ........................... | 19,564 | 9.46% | 8,274 | 4.00% | 10,343 | 5.00% |
| First Bank-MT ...................... | 15,149 | 10.17% | 5,961 | 4.00% | 7,451 | 5.00% |
| San Juans .......................... | 13,490 | 9.66% | 5,586 | 4.00% | 6,982 | 5.00% |

N/A - not applicable

The Federal Deposit Insurance Corporation Improvement Act generally restricts a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its bank holding company if the institution would thereafter be capitalized at less than 8 percent total capital (to risk weighted assets), 4 percent tier 1 capital (to risk weighted assets), or a 4 percent tier 1 capital (to average assets). At December 31, 2009 and 2008, each of the bank subsidiaries' capital measures exceed the highest supervisory threshold, which requires total capital (to risk weighted assets) of at least 10 percent, tier 1 capital (to risk weighted assets) of at least 6 percent, and a leverage capital (to average assets) of at least 5 percent.



11. REGULATORY CAPITAL . . . CONTINUED

Each of the bank subsidiaries was considered well capitalized by the respective regulator as of December 31, 2009 and 2008. There are no conditions or events since year end that management believes have changed the Company's or subsidiaries' risk-based capital category. In addition to the minimum regulatory capital requirements, certain bank subsidiaries have added regulatory capital requirements of which they are in compliance as of December 31, 2009.

Current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters. The bank subsidiaries are subject to certain restrictions on the amount of dividends that they may declare without prior regulatory approval. At December 31, 2009,

$71,537,000 of retained earnings at the bank subsidiaries is available to the parent company without regulatory approval.

12. FEDERAL AND STATE INCOME TAXES

The following is a summary of consolidated income tax expense for:

| (Dollars in thousands) | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 26,557 | 37,373 | 29,016 |
| State | 7,189 | 8,271 | 6,491 |
| Total current tax expense | 33,746 | 45,644 | 35,507 |
| Deferred: | | | |
| Federal | (24,656) | (9,979) | (348) |
| State | (5,099) | (2,064) | (72) |
| Total deferred tax benefit | (29,755) | (12,043) | (420) |
| Total income tax expense | $ 3,991 | 33,601 | 35,087 |

Combined federal and state income tax expense differs from that computed at the federal statutory corporate tax rate as follows for:

| | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Federal statutory rate | 35.0% | 35.0% | 35.0% |
| State taxes, net of federal income tax benefit | 3.8% | 4.1% | 4.0% |
| Tax-exempt interest income | -21.0% | -4.9% | -4.4% |
| Tax credits | -3.3% | -0.1% | 0.0% |
| Bargain purchase gain | -3.2% | 0.0% | 0.0% |
| Other, net | -0.9% | -0.2% | -0.8% |
| | 10.4% | 33.9% | 33.8% |



12. FEDERAL AND STATE INCOME TAXES . . . CONTINUED

The tax effect of temporary differences which give rise to a significant portion of deferred tax assets and deferred tax liabilities are as follows:

| (Dollars in thousands) | December 31, 2009 | 2008 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan and lease losses | $ 56,067 | 30,061 |
| Non-accrual interest | 4,524 | 1,652 |
| Stock based compensation | 3,612 | 3,100 |
| Impairment of equity securities (FHLMC & FNMA) | 2,976 | 2,976 |
| Deferred compensation | 2,877 | 2,896 |
| Employee benefits | 2,046 | 1,617 |
| Available-for-sale securities | 224 | 803 |
| Other | 1,539 | 671 |
| Total gross deferred tax assets | 73,865 | 43,776 |
| Deferred tax liabilities: | | |
| Federal Home Loan Bank stock dividends | (10,234) | (10,012) |
| Intangibles | (8,352) | (7,897) |
| Fixed assets, due to differences in depreciation | (7,704) | (6,393) |
| Deferred loan costs | (4,338) | (3,768) |
| Other | (2,155) | (1,414) |
| Total gross deferred tax liabilities | (32,783) | (29,484) |
| Net deferred tax asset | $ 41,082 | 14,292 |

The Company and its bank subsidiaries join together in the filing of consolidated income tax returns in the following jurisdictions: federal, Montana, Idaho, Colorado and Utah. Although 1st Bank and First National have operations in Wyoming and Mountain has operations in Washington, neither Wyoming nor Washington imposes a corporate-level income tax. All required income tax returns have been timely filed. The following schedule summarizes the years that remain subject to examination:

| | Years ended December 31, |
|---|---|
| Federal | 2006, 2007 and 2008 |
| Montana | 2003, 2004, 2005, 2006, 2007 and 2008 |
| Idaho | 2003, 2004, 2005, 2006, 2007 and 2008 |
| Colorado | 2005, 2006, 2007 and 2008 |
| Utah | 2006, 2007 and 2008 |

During 2009, the Company made investments in CDE's which received NMTC allocations. Administered by the Community Development Financial Institutions 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. In addition to previous LIHTC investments, during the third quarter 2009, the Company made another investment in a LIHTC. The LIHTC is an indirect Federal subsidy used to finance the development of affordable rental housing for low-income households. The federal income tax credits received are claimed over a ten-year credit allowance period. During the

year, the Company invested in Qualified Zone Academy and Qualified School Construction bonds whereby the Company receives quarterly federal income tax credits until the bonds mature. The federal income tax credits on the bonds are subject to federal and state income tax.



12. FEDERAL AND STATE INCOME TAXES . . . CONTINUED

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

| Years ended (Dollars in thousands) | New Market Tax Credits | Low-Income Housing Tax Credits | Investment Securities Tax Credits |
|---|---|---|---|
| 2010 | 1,530 | 337 | 536 |
| 2011 | 1,530 | 785 | 541 |
| 2012 | 1,836 | 785 | 541 |
| 2013 | 1,836 | 785 | 541 |
| 2014 | 1,836 | 785 | 541 |
| Thereafter | 1,836 | 3,324 | 3,834 |
| | $10,404 | 6,801 | 6,534 |

In accordance with FASB ASC Topic 740, Income Taxes, the Company determined its unrecognized tax benefit to be $0 and $152,000 as of December 31, 2009 and 2008, respectively. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

| (Dollars in thousands) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Balance at beginning of period | $ 152 | 210 |
| Reduction of unrecognized tax benefits for expired periods | (152) | (58) |
| Balance at end of period | $ -- | 152 |

The Company recognizes interest related to unrecognized income tax benefits in interest expense and penalties are recognized in other expense. During the years ended December 31, 2009 and 2008, the Company recognized $0 interest expense and recognized $0 penalty with respect to income tax liabilities. The Company had approximately $0 and $37,000 accrued for the payment of interest at December 31, 2009 and 2008, respectively. The Company had accrued $0 for the payment of penalties at December 31, 2009 and 2008.

Deferred tax assets are reduced by a valuation allowance, if based on the weight of available evidence, it is more-likely-than not that some portion or all of

the deferred tax assets will not be realized. The term more-likely-than not means a likelihood of more than 50 percent. The Company has assessed the need for a valuation allowance and determined that a valuation allowance is not necessary at December 31, 2009 and 2008. The Company believes that it is more likely than not that the Company's deferred tax assets will be realized by offsetting taxable income in carryback years, and by offsetting future taxable income from reversing taxable temporary differences and anticipated future taxable income (exclusive of reversing temporary differences). In its assessment, the Company considered its strong earnings history, no history of tax credit carryforwards expiring unused, and no future net operating losses (for tax purposes) expected for any bank subsidiary.

Retained earnings at December 31, 2009 includes approximately $3,600,000 for which no provision for federal income tax has been made. This amount represents the base year federal reserve for bad debt, which is essentially an allocation of earnings to pre-1988 bad debt deductions for income tax purposes only. This amount is treated as a permanent difference and deferred taxes are not recognized unless it appears that this bad debt reserve will be reduced and thereby result in taxable income in the foreseeable future. The Company is not currently contemplating any changes in its business or operations which would result in a recapture of this federal reserve for bad debt into taxable income.

61

13. EMPLOYEE BENEFIT PLANS

The Company has a profit sharing plan that is subject to a "safe harbor" provision requiring an annual 3 percent non-elective contribution by the Company. The Company amended the plan during 2009, retaining the same safe harbor contribution and modifying the 401(k) match to be discretionary. To be considered eligible for the plan, an employee must be 21 year of age and have been employed for a full calendar quarter. In addition, elective contributions, depending on the Company's profitability, may be made to the plan. To be considered eligible for the elective contributions, an employee must be 21 years of age, worked 501 hours in the plan year and be employed as of the last day of the plan year. Entry dates for the profit sharing plan are the first day of the plan year and first day of the fourth, seventh, and tenth months. Participants are at all times fully vested in all contributions. The total profit sharing plan expense for the years ended December 31, 2009, 2008, and 2007 was approximately $2,149,000, $3,034,000 and $3,964,000 respectively.

The Company also has an employees' savings plan. The plan allows eligible employees to contribute up to 60 percent of their eligible annual compensation. Currently, the Company matches an amount equal to 50 percent of the employee's contribution, up to 6 percent of the employee's eligible compensation. Entry dates for the employees' savings plan are the first day of the plan year and first day of the fourth, seventh, and tenth months. Participants are at all times fully vested in all contributions. The Company's contribution to the savings plan for the years ended December 31, 2009, 2008 and 2007 was approximately $1,538,000, $1,445,000, and $1,333,000, respectively.

The Company has a non-funded deferred compensation plan for directors and senior officers. The plan provides for the deferral of cash payments of up to 50 percent of a participants' salary, and for 100 percent of bonuses and directors fees, at the election of the participant. The total amount deferred was approximately $408,000, $461,000, and $543,000, for the years ending December 31, 2009, 2008, and 2007, respectively. The participant receives an earnings credit at a rate equal to 50 percent of the Company's return on equity. The total earnings for the years ended 2009, 2008, and 2007 for this plan were

approximately $124,000, $261,000, and $259,000, respectively. In connection with several acquisitions, the Company assumed the obligations of deferred compensation plans for certain key employees. As of December 31, 2009, the liability related to the obligations was approximately $1,500,000 and was included in other liabilities of the Consolidated Statements of Financial Condition. The amount expensed related to the obligations during 2009 was insignificant.

The Company has a Supplemental Executive Retirement Plan ("SERP") which is intended to supplement payments due to participants upon retirement under the Company's other qualified plans. The Company credits the participant's account on annual basis for an amount equal to employer contributions that would have otherwise been allocated to the participant's account under the tax-qualified plans were it not for limitations imposed by the Internal Revenue Service ("IRS"), or the participation in the non-funded deferred compensation plan. Eligible employees include participants of the non-funded deferred compensation plan and employees whose benefits were limited as a result of IRS regulations. The Company's required contribution to the SERP for the years ended December 31, 2009, 2008 and 2007 was approximately $20,000, $31,000, and $70,000, respectively. The participant receives an earnings credit at a rate equal to 50 percent of the Company's return on equity. The total earnings for the years ended 2009, 2008, and 2007 for this plan were approximately $24,000, $50,000, and $52,000, respectively.

The Company has elected to self-insure certain costs related to employee health and dental benefit programs. Costs resulting from noninsured losses are expensed as incurred. The Company has purchased insurance that limits its exposure on an aggregate and individual claims basis for the employee health and dental benefit programs.

The Company has entered into employment contracts with 16 senior officers that provide benefits under certain conditions following a change in control of the Company.



14. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Net earnings available to common stockholders, basic and diluted .... | $34,374,000 | 65,657,000 | 68,603,000 |
| Average outstanding shares - basic .... | 61,529,944 | 54,851,145 | 53,236,489 |
| Add: Dilutive stock options .......... | 1,696 | 152,669 | 511,909 |
| Average outstanding shares - diluted .. | 61,531,640 | 55,003,814 | 53,748,398 |
| Basic earnings per share ............. | $ 0.56 | 1.20 | 1.29 |
| Diluted earnings per share ........... | $ 0.56 | 1.19 | 1.28 |

There were approximately 2,717,000, 1,421,000, and 701,000 options excluded from the diluted share calculation for December 31, 2009, 2008, and 2007, respectively, due to the option exercise price exceeding the market price of the Company's common stock.

15. STOCK OPTION PLANS

The Company has stock-based compensation plans outstanding. The Directors 1994 Stock Option Plan was approved to provide for the grant of stock options to outside Directors of the Company. The Directors 1994 Stock Option Plan expired in March of 2009 and has granted but unexpired stock options outstanding. The Employees 1995 Stock Option Plan was approved to provide the grant of stock options to certain full-time employees of the Company. The Employees 1995 Stock Option Plan expired in April 2005 and has granted but unexpired stock options outstanding. The 2005 Stock Incentive Plan provides awards to certain full-time employees and directors of the Company. The 2005 Stock Incentive Plan permits the granting of stock options, share appreciation rights, restricted shares, restricted share units, and unrestricted shares, deferred share units, and performance awards. Upon exercise of the stock options, the shares are obtained from the authorized and unissued stock.

The 1994, 1995, and 2005 plans also contain provisions authorizing the grant of limited stock rights, which permit the optionee, upon a change in control of the Company, to surrender his or her stock options for cancellation and receive cash or common stock equal to the difference between the exercise price and the fair market value of the shares on the date of the grant. The option price at which the Company's common stock may be purchased upon exercise of stock options granted under the plans must be at least equal to the per share market value of such stock at the date the option is granted. All stock option shares are adjusted for stock splits and stock dividends. The term of the stock options may not exceed five years from the date the options are granted. The employee stock options generally vest over a period of two years and the director options vest over a period of six months.

Compensation cost is based on the fair value of the stock options at the grant date. Additionally, the compensation cost for the portion of awards outstanding for which the requisite service has not been rendered that are outstanding as of the required effective date are recognized as the requisite service is rendered on or after the required effective date. For the twelve months ended December 31, 2009, the compensation cost for the stock option plans was $1,842,000, with a corresponding income tax benefit of $726,000, resulting in a net earnings and cash flow from operations reduction of $1,116,000, or a decrease of $.02 per share for both basic and diluted earnings per share. Additionally, in the Consolidated Statement of Cash Flows, the excess tax benefit from stock options decreased the net cash provided from operating activities and increased the net cash provided by financing activities by $75,000 for the twelve months ended December 31, 2009. Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards which are expected to be recognized over the next weighted period of 1 year was $958,000 as of December 31, 2009. The total fair value of shares vested for the year ended December 31, 2009 and 2008 was $3,334,000 and $3,596,000, respectively.



15. STOCK OPTION PLANS . . . CONTINUED

The per share weighted-average fair value of stock options on the date of grant

was based on the Black Scholes option-pricing model. The Company uses historical data to estimate option exercise and termination within the valuation model. Employee and director awards, which have dissimilar historical exercise behavior, are considered separately for valuation purposes. The risk-free interest rate for periods within the contractual life of the stock option is based on the U.S. Treasury yield in effect at the time of the grant. The stock option awards generally vest upon six months or two years of service for directors and employees, respectively, and generally expire in five years. Expected volatilities are based on historical volatility and other factors. The following lists the various assumptions and fair value of the grants awarded during the year.

| | Options Granted During | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Fair value of stock options - Black Scholes .. | $4.26 | $3.56 | $5.05 |
| Expected volatility ......................... | 44% | 29% | 26% |
| Expected dividends .......................... | 2.74% | 2.30% | 2.12% |
| Risk free interest rate ..................... | 1.40% | 2.49% | 4.80% |
| Expected life ............................... | 3.47 | 3.46 | 3.47 |

At December 31, 2009, total shares available for stock option grants to employees and directors are 2,716,109. Changes in shares granted for stock options for the year ended December 31, 2009 are summarized as follows:

| | Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2008 ... | 2,628,609 | $19.73 |
| Canceled .......................... | (185,144) | 18.41 |
| Granted ........................... | 440,715 | 15.37 |
| Exercised ......................... | (188,535) | 13.55 |
| Outstanding at December 31, 2009 ... | 2,695,645 | 19.52 |
| Excercisable at December 31, 2009 .. | 1,862,865 | 20.67 |

The range of exercise prices on options outstanding and exercisable at December 31, 2009 is as follows:

| | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Price Range | Options Outstanding | Weighted Average Exercise Price | Weighted Average Life of Options | Options Exercisable | Weighted Average Exercise Price |
| $13.91 - $18.19 | 1,346,245 | $16.65 | 3.2 years | 514,465 | $16.73 |

| | | | | | |
|---|---|---|---|---|---|
| $18.74 - $24.73 | 1,349,400 | 22.47 | 1.7 years | 1,348,400 | 22.47 |
| | 2,695,645 | 19.52 | 2.6 years | 1,862,865 | 20.67 |

64

16. PARENT COMPANY INFORMATION (CONDENSED)

The following condensed financial information is the unconsolidated (parent company only) information for the Company:

STATEMENTS OF FINANCIAL CONDITION

| (Dollars in thousands) | December 31, 2009 | 2008 |
|---|---|---|
| Assets: | | |
| Cash | $ 565 | 1,036 |
| Interest bearing cash deposits | 17,764 | 97,221 |
| Cash and cash equivalents | 18,329 | 98,257 |
| Investment securities, available-for-sale | 1,111 | -- |
| Other assets | 15,319 | 14,443 |
| Investment in subsidiaries | 797,180 | 702,183 |
| | $831,939 | 814,883 |
| Liabilities and Stockholders' Equity: | | |
| Dividends payable | $ 8,011 | 7,973 |
| Subordinated debentures | 124,988 | 121,037 |
| Other liabilities | 13,050 | 8,933 |
| Total liabilities | 146,049 | 137,943 |
| Common stock | 616 | 613 |
| Paid-in capital | 497,493 | 491,794 |
| Retained earnings | 188,129 | 185,776 |
| Accumulated other comprehensive loss | (348) | (1,243) |
| Total stockholders' equity | 685,890 | 676,940 |
| | $831,939 | 814,883 |

STATEMENT OF OPERATIONS

| (Dollars in thousands) | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Revenues: | | | |
| Dividends from subsidiaries | $24,300 | 20,500 | 40,550 |
| Other income | 2,775 | 747 | 889 |
| Intercompany charges for services | 13,108 | 12,656 | 11,345 |
| Total revenues | 40,183 | 33,903 | 52,784 |
| Expenses: | | | |
| Employee compensation and benefits | 7,793 | 7,769 | 7,564 |
| Other operating expenses | 12,845 | 13,044 | 12,969 |
| Total expenses | 20,638 | 20,813 | 20,533 |
| Earnings before income tax benefit and equity in undistributed earnings of subsidiaries | 19,545 | 13,090 | 32,251 |
| Income tax benefit | 1,942 | 1,952 | 4,444 |
| Income before equity in undistributed earnings of subsidiaries | 21,487 | 15,042 | 36,695 |
| Subsidiary earnings in excess of dividends distributed | 12,887 | 50,615 | 31,908 |
| Net earnings | $34,374 | 65,657 | 68,603 |



16. PARENT COMPANY INFORMATION (CONDENSED) . . . CONTINUED

STATEMENTS OF CASH FLOWS

| (Dollars in thousands) | Years ended December 31, 2009 | 2008 | 200 |
|---|---|---|---|
| Operating activities: | | | |
| Net earnings | $ 34,374 | 65,657 | 68,6 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Subsidiary earnings in excess of dividends distributed | (12,887) | (50,615) | (31,9 |
| Gain on sale of investments | (2,147) | -- | |
| Excess tax benefits related to the exercise of stock options | (75) | (1,325) | (1,7 |
| Net increase in other assets and other liabilities | 1,356 | 3,411 | 5,3 |
| Net cash provided by operating activities | 20,621 | 17,128 | 40,2 |
| Investing activities: | | | |
| Proceeds from sales, maturities and prepayments of securities available-for-sale | 2,267 | 1,270 | |
| Purchases of investment securities available-for-sale | (285) | -- | |
| Equity contribution to subsidiary banks | (68,753) | (15,455) | (10,4 |
| Net addition of premises and equipment | (4,451) | (2,741) | (3,4 |
| Net cash used by investing activities | (71,222) | (16,926) | (13,8 |
| Financing activities: | | | |
| Net increase in other borrowed funds | 65 | -- | |
| Cash dividends paid | (32,021) | (29,079) | (26,6 |
| Excess tax benefits from stock options | 75 | 1,325 | 1,7 |

| | | | |
|---|---|---|---|
| Proceeds from exercise of stock options and other stock issued .. | 2,554 | 103,749 | 6,1 |
| Net cash provided by (used in) financing activities ............... | (29,327) | 75,995 | (18,7 |
| Net increase in cash and cash equivalents ......................... | (79,928) | 76,197 | 7,6 |
| Cash and cash equivalents at beginning of year .................... | 98,257 | 22,060 | 14,4 |
| Cash and cash equivalents at end of year .......................... | $ 18,329 | 98,257 | 22,0 |

17. UNAUDITED QUARTERLY FINANCIAL DATA

Summarized unaudited quarterly financial data is as follows:

| | QUARTERS ENDED, 2009 | | | |
|---|---|---|---|---|
| (Dollars in thousands, except per share data) | MARCH 31 | JUNE 30 | SEPTEMBER 30 | |
| Interest income ............................ | $ 75,532 | 74,420 | 74,430 | |
| Interest expense ........................... | 15,154 | 13,939 | 13,801 | |
| Net interest income ........................ | 60,378 | 60,481 | 60,629 | |
| Gain on investments ........................ | -- | -- | 2,667 | |
| Provision for loan losses .................. | 15,715 | 25,140 | 47,050 | |
| Earnings (loss) before income taxes ......... | 22,414 | 13,696 | (6,617) | |
| Net earnings (loss) ........................ | 15,779 | 10,652 | (1,531) | |
| Basic earnings (loss) per share ............ | 0.26 | 0.17 | (0.02) | |
| Diluted earnings (loss) per share .......... | 0.26 | 0.17 | (0.02) | |
| Dividends per share ........................ | 0.13 | 0.13 | 0.13 | |
| Market range high-low ...................... | $19.36-$12.15 | $18.97-$14.67 | $16.80-$12.92 | $ |



17. UNAUDITED QUARTERLY FINANCIAL DATA . . . CONTINUED

| | Quarters ended, 2008 | | | |
|---|---|---|---|---|
| (Dollars in thousands, except per share data) | March 31 | June 30 | September 30 | |
| Interest income ............................ | $ 76,016 | 74,573 | 75,689 | |
| Interest expense ........................... | 27,387 | 22,273 | 22,113 | |
| Net interest income ........................ | 48,629 | 52,300 | 53,576 | |
| Gain (loss) on investments ................. | 248 | -- | (7,593) | |
| Provision for loan losses .................. | 2,500 | 5,042 | 8,715 | |
| Earnings before income taxes ............... | 26,778 | 28,196 | 18,854 | |
| Net earnings ............................... | 17,399 | 18,459 | 12,785 | |
| Basic earnings per share ................... | 0.32 | 0.35 | 0.23 | |
| Diluted earnings per share ................. | 0.32 | 0.34 | 0.24 | |
| Dividends per share ........................ | 0.13 | 0.13 | 0.13 | |
| Market range high-low ...................... | $20.48-$15.54 | $21.78-$15.99 | $27.72-$14.46 | $ |

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC Topic 820, Fair Value Measurements and Disclosures, requires the Company to disclose information relating to fair value. 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. The Standard establishes 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 standard describes three levels of inputs that may be used to measure fair value:

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

The following are the assets measured at fair value on a recurring basis at and for the period ended December 31, 2009 and 2008:

| (Dollars in thousands) | ASSETS/ LIABILITIES MEASURED AT FAIR VALUE 12/31/2009 | QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1) | SIGNIFICAN OTHER OBSERVABL INPUTS (LEVEL 2) |
|---|---|---|---|
| Financial assets: | | | |
| U.S. government agencies | $ 209 | -- | 209 |
| Government sponsored enterprises | 177 | -- | 177 |
| State and local governments and other issues | 480,976 | -- | 478,888 |
| Collateralized debt obligations | 6,789 | -- | -- |
| Residential mortgage-backed securities | 955,042 | -- | 953,931 |
| Total financial assets | $1,443,193 | -- | 1,433,205 |



18. FAIR VALUE OF FINANCIAL INSTRUMENTS . . . CONTINUED

| (Dollars in thousands) | Assets/ Liabilities Measured at Fair Value 12/31/2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significan Other Observable Inputs (Level 2) |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Financial assets: | | | |
| U.S. government agencies | $ 217 | -- | 217 |
| Government sponsored enterprises | 312 | -- | 312 |
| State and local governments and other issues | 418,143 | -- | 417,859 |
| Collateralized debt obligations | 15,540 | -- | -- |
| Residential mortgage-backed securities | 494,470 | -- | 486,873 |
| Total financial assets | $928,682 | -- | 905,261 |

The following is a description of the valuation methodologies used for financial assets measured at fair value on a recurring basis. There have been no significant changes in the valuation techniques during the period.

Investment securities - fair value for available-for-sale 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, prepayments, defaults, cumulative loss projections, and cash flows. For those securities where greater reliance on unobservable inputs occurs, such securities are classified as Level 3 within the hierarchy.

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods ended December 31, 2009 and 2008.

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 2009 | 2008 |
| Balance at beginning of year | $23,421 | 16,948 |
| Total unrealized gains included in other comprehensive income | (7,264) | (747) |
| Amortization, accretion or principal payments | (539) | (377) |
| Purchases | 2,251 | -- |
| Transfers into level 3 | -- | 7,597 |
| Transfers out of level 3 | (7,881) | -- |
| Balance at end of year | $ 9,988 | 23,421 |

The change in unrealized gains (losses) related to available-for-sale securities is reported in the accumulated other comprehensive income (loss).



18. FAIR VALUE OF FINANCIAL INSTRUMENTS . . . CONTINUED

Certain financial assets or liabilities are not measured at fair value on a

recurring basis, but are subject to fair value measurement in certain circumstances, for example upon acquisition or when there is evidence of impairment. The following are the assets measured at fair value on a nonrecurring basis at December 31, 2009 and 2008:

| (Dollars in thousands) | ASSETS/ LIABILITIES MEASURED AT FAIR VALUE 12/31/2009 | QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1) | SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2) | S U |
|---|---|---|---|---|
| Financial assets: | | | | |
| Real estate and other assets owned, net .. | $ 57,320 | -- | -- | |
| Impaired loans, net of allowance for loan and lease .................. | 198,982 | -- | -- | |
| Total financial assets ............... | $256,302 | -- | -- | |

| (Dollars in thousands) | Assets/ Liabilities Measured at Fair Value 12/31/2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | S U |
|---|---|---|---|---|
| Financial assets: | | | | |
| Real estate and other assets owned, net .. | $11,539 | -- | -- | |
| Impaired loans, net of allowance for loan and lease .................. | 71,950 | -- | -- | |
| Total financial assets ............... | $83,489 | -- | -- | |

The following is a description of the valuation methodologies used for financial assets measured at fair value on a nonrecurring basis. There have been no significant changes in the valuation techniques during the period.

Real estate and other assets owned, net - real estate and other assets owned are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell. Estimated fair value of real estate and other assets owned is based on appraisals. Real estate and other assets owned are classified within Level 3 of the fair value hierarchy.

Impaired loans, net of ALLL - loans included in the Company's financials for which it is probable that the Company will not collect all principal and interest due according to contractual terms are considered impaired in accordance with FASB ASC Topic 310, Receivables. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method. Impaired loans are primarily collateral-dependent and the estimated fair value is based on the fair value of the collateral. Impaired loans are classified within Level 3 of the fair value hierarchy.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS . . . CONTINUED

The following presents the carrying amounts and estimated fair values in accordance with FASB ASC Topic 825, Financial Instruments, as of December 31, 2009 and 2008.

| | DECEMBER 31, 2009 | | |
|---|---|---|---|
| (Dollars in thousands) | AMOUNT | FAIR VALUE | |
| Financial assets: | | | |
| Cash on hand and in banks | $ 120,731 | 120,731 | |
| Federal funds sold | 87,155 | 87,155 | |
| Interest bearing cash deposits | 2,689 | 2,689 | |
| Investment securities | 488,775 | 488,775 | |
| Residential mortgage-backed securities | 955,042 | 955,042 | |
| FHLB and FRB stock | 62,577 | 62,577 | |
| Loans receivable, net of allowance for loan and lease losses | 3,987,318 | 3,989,168 | 4, |
| Accrued interest receivable | 29,729 | 29,729 | |
| Total financial assets | $5,734,016 | 5,735,866 | 5, |
| Financial liabilities: | | | |
| Deposits | $4,100,152 | 4,111,909 | 3, |
| Advances from Federal Home Loan Bank | 790,367 | 798,509 | |
| Federal Reserve Bank discount window | 225,000 | 225,000 | |
| Repurchase agreements and other borrowed funds | 226,251 | 226,271 | |
| Subordinated debentures | 124,988 | 80,473 | |
| Accrued interest payable | 7,928 | 7,928 | |
| Total financial liabilities | $5,474,686 | 5,450,090 | 4, |

The following is a description of the methods used to estimate the fair value of all other financial instruments recognized at amounts other than fair value.

Financial Assets

The estimated fair value of cash, federal funds sold, interest bearing cash deposits, and accrued interest receivable is the book value of such financial assets.

The estimated fair value of FHLB and FRB stock is book value due to the restrictions that such stock may only be sold to another member institution or the FHLB or FRB at par value.

Loans receivable, net of ALLL - fair value for unimpaired loans, net of ALLL, is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities. Impaired loans are primarily collateral-dependent and the estimated fair value is based on the fair value of the collateral.

Financial Liabilities

The estimated fair value of accrued interest payable is the book value of such financial liabilities.

Deposits - fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The estimated fair value of demand, NOW, savings, and money market deposits is the book value since rates are regularly adjusted to market rates.



18. FAIR VALUE OF FINANCIAL INSTRUMENTS . . . CONTINUED

Advances from FHLB - fair value of advances is estimated based on borrowing rates currently available to the Company for advances with similar terms and maturities.

FRB borrowings - fair value of borrowings through the FRB is estimated based on borrowing rates currently available to the Company through FRB discount window programs with similar terms and maturities.

Repurchase agreements and other borrowed funds - fair value of term repurchase agreements and other term borrowings is estimated based on current repurchase rates and borrowing rates currently available to the Company for repurchases and borrowings with similar terms and maturities. The estimated fair value for overnight repurchase agreements and other borrowings is book value.

Subordinated debentures - fair value of the subordinated debt is estimated by discounting the estimated future cash flows using current estimated market rates for subordinated debt issuances with similar characteristics.

Off-balance sheet financial instruments - commitments to extend credit and letters of credit represent the principal categories of off-balance sheet financial instruments. Rates for these commitments are set at time of loan closing, such that no adjustment is necessary to reflect these commitments at market value. See Note 4 to consolidated financial statements.

19. CONTINGENCIES AND COMMITMENTS

The Company leases certain land, premises and equipment from third parties under operating and capital leases. Total rent expense for the years ended December 31, 2009, 2008, and 2007 was approximately $3,306,000, $2,561,000, and $2,099,000, respectively. Amortization of building capital lease assets is included in depreciation. One of the Company's subsidiaries has entered into lease transactions with two of its directors and the related party rent expense for the years ended December 31, 2009, 2008, and 2007 was approximately $703,000, $476,000, and $346,000. The total future minimum rental commitments required under operating and capital leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2009 are as follows:

| (Dollars in thousands) | Capital Leases | Operating Leases | Total |
|---|---|---|---|
| Years ended December 31, | | | |
| 2010 | $ 231 | 2,912 | 3,143 |

| | | | |
|---|---|---|---|
| 2011 | 233 | 2,621 | 2,854 |
| 2012 | 235 | 2,130 | 2,365 |
| 2013 | 238 | 1,902 | 2,140 |
| 2014 | 838 | 1,739 | 2,577 |
| Thereafter | 1,341 | 9,533 | 10,874 |
| Total minimum lease payments | 3,116 | 20,837 | 23,953 |
| Less: Amount representing interest | 1,079 | | |
| Present value of minimum lease payments | 2,037 | | |
| Less: Current portion of obligations under capital leases | 74 | | |
| Long-term portion of obligations under capital leases | $1,963 | | |

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 effect on the Company's consolidated financial position, results of operations or liquidity.



20. ACQUISITIONS

On October 2, 2009, the Company acquired First Company and its bank subsidiary, First National, with total assets of $272,280,000, loans of $160,538,000 and deposits of $236,529,000. The purchase price included core deposit intangible of $4,040,000. The acquisition resulted in a $3,482,000 one-time bargain purchase gain recorded in other income which was based on the estimated fair value of the assets acquired and liabilities assumed.

On December 1, 2008, the Company acquired Bank of the San Juans Bancorporation and its bank subsidiary, San Juans, with total assets of $157,155,000, loans of $139,376,000 and deposits of $119,019,000. The purchase price included core deposit intangible of $2,101,000 and goodwill of $5,958,000.

Adjustment of the allocated acquisition price may be related to fair value estimates for which all information has not been obtained on the acquired entity known or discovered during the allocation period, the period of time required to identify and measure the fair values of the assets and liabilities acquired in the business combination.

21. OPERATING SEGMENT INFORMATION

FASB ASC Topic 280, Segment Reporting, requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance. The Company defines operating segments and evaluates segment performance internally based on individual bank charters. If required, VIEs are consolidated into the operating segment which invested into such entities.

On February 1, 2009, Morgan merged into 1st Bank resulting in operations being

conducted under the 1st Bank charter. On April 30, 2008, Whitefish merged into Glacier with operations conducted under the Glacier charter. The five bank subsidiaries acquired as a result of the acquisition of CDC included Citizens State Bank, First Citizens Bank of Billings, First National Bank of Lewistown, Western Bank of Chinook, and First Citizens Bank, N.A. On January 26, 2007, Citizens State Bank, First Citizens Bank of Billings, and First Citizens Bank, N.A. were merged into First Security, Western, and Glacier, respectively. On June 21, 2007, Western Bank of Chinook merged into First National Bank of Lewistown and renamed First Bank of Montana. Prior period activity of the merged banks has been combined and included in the acquiring bank subsidiaries' historical results.

The accounting policies of the individual operating segments are the same as those of the Company described in Note 1. Transactions between operating segments are conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations. Intersegment revenues primarily represents interest income on intercompany borrowings, management fees, and data processing fees received by individual banks or the parent company. Intersegment revenues, expenses and assets are eliminated in order to report results in accordance with accounting principles generally accepted in the United States of America. Expenses for centrally provided services are allocated based on the estimated usage of those services.

72

21. OPERATING SEGMENT INFORMATION . . . CONTINUED

The following is a summary of selected operating segment information for the years ended and as of December 31, 2009, 2008, and 2007.

| 2009 (Dollars in thousands) | Glacier | Mountain West | First Security | 1st Bank | Western |
|---|---|---|---|---|---|
| Net interest income .................... | $ 57,139 | 53,302 | 35,788 | 24,057 | 21,233 |
| Provision for loan losses .............. | (32,000) | (50,500) | (10,450) | (10,800) | (3,200 |
| Net interest income after provision for loan and lease losses .. | 25,139 | 2,802 | 25,338 | 13,257 | 18,033 |
| Non-interest income .................... | 15,387 | 27,882 | 8,103 | 4,628 | 8,631 |
| Core deposit amortization .............. | (330) | (184) | (468) | (652) | (571 |
| Other non-interest expense ............. | (27,325) | (51,525) | (18,897) | (14,943) | (16,342 |
| Earnings before income taxes ........... | 12,871 | (21,025) | 14,076 | 2,290 | 9,751 |
| Income tax (expense) benefit ........... | (2,803) | 9,764 | (3,372) | (309) | (2,813 |
| Net income (loss) ...................... | $ 10,068 | (11,261) | 10,704 | 1,981 | 6,938 |
| Assets ................................. | $1,325,039 | 1,172,331 | 890,672 | 650,072 | 624,077 |
| Loans, net of ALLL ..................... | 903,276 | 919,901 | 548,471 | 286,019 | 314,613 |
| Goodwill ............................... | 8,900 | 23,159 | 18,582 | 41,718 | 22,311 |
| Deposits ............................... | 726,403 | 793,006 | 588,858 | 421,271 | 504,619 |
| Stockholders' equity ................... | 139,799 | 146,720 | 120,044 | 101,789 | 85,259 |

First First San

| | National | Citizens | Bank-MT | Juans | Parent |
|---|---|---|---|---|---|
| Net interest income | $ 3,964 | 10,437 | 7,900 | 8,021 | (6,265) |
| Provision for loan losses | (1,683) | (2,800) | (985) | (1,800) | -- |
| Net interest income after provision for loan and lease losses | 2,281 | 7,637 | 6,915 | 6,221 | (6,265) |
| Non-interest income | 4,187 | 4,235 | 929 | 1,329 | 52,466 |
| Core deposit amortization | (144) | (111) | (358) | (233) | -- |
| Other non-interest expense | (2,011) | (7,992) | (3,189) | (5,435) | (13,769) |
| Earnings before income taxes | 4,313 | 3,769 | 4,297 | 1,882 | 32,432 |
| Income tax (expense) benefit | (230) | (1,332) | (1,426) | (551) | 1,942 |
| Net income | $ 4,083 | 2,437 | 2,871 | 1,331 | 34,374 |
| Assets | $295,953 | 241,807 | 217,379 | 184,528 | 832,916 |
| Loans, net of ALLL | 151,379 | 161,182 | 114,113 | 145,015 | -- |
| Goodwill | -- | 9,553 | 12,556 | 5,958 | -- |
| Deposits | 247,256 | 159,763 | 143,552 | 148,474 | -- |
| Stockholders' equity | 31,364 | 31,969 | 32,627 | 25,410 | 685,890 |

73

21. OPERATING SEGMENT INFORMATION . . . CONTINUED

| 2008 (Dollars in thousands) | Glacier | Mountain West | First Security | 1st Bank | Western |
|---|---|---|---|---|---|
| Net interest income | $ 52,900 | 45,614 | 34,212 | 22,695 | 20,713 |
| Provision for loan losses | (8,825) | (11,150) | (1,750) | (2,012) | (540 |
| Net interest income after provision for loan and lease losses | 44,075 | 34,464 | 32,462 | 20,683 | 20,173 |
| Non-interest income | 13,926 | 20,353 | 6,987 | 4,728 | 3,306 |
| Core deposit amortization | (392) | (196) | (511) | (712) | (623 |
| Other non-interest expense | (27,074) | (41,922) | (17,128) | (14,143) | (16,151 |
| Earnings before income taxes | 30,535 | 12,699 | 21,810 | 10,556 | 6,705 |
| Income tax (expense) benefit | (10,910) | (3,628) | (7,282) | (3,631) | (1,818 |
| Net income | $ 19,625 | 9,071 | 14,528 | 6,925 | 4,887 |
| Assets | $1,250,774 | 1,226,869 | 954,218 | 566,869 | 609,868 |
| Loans, net of ALLL | 963,107 | 955,486 | 561,691 | 320,370 | 354,199 |
| Goodwill | 8,900 | 23,159 | 18,582 | 41,718 | 22,311 |
| Deposits | 609,473 | 680,404 | 545,199 | 418,231 | 357,729 |
| Stockholders' equity | 129,890 | 124,881 | 116,856 | 95,200 | 83,843 |

| Citizens | First Bank-MT | San Juans | Parent | Eliminations |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Net interest income .................... | $ 7,676 | 6,676 | 575 | (6,762) | -- |
| Provision for loan losses .............. | (750) | (390) | (53) | -- | -- |
| Net interest income after provision for loan and lease losses .. | 6,926 | 6,286 | 522 | (6,762) | -- |
| Non-interest income .................... | 2,855 | 768 | 85 | 83,891 | (84,146) |
| Core deposit amortization .............. | (128) | (405) | (19) | -- | -- |
| Other non-interest expense ............. | (6,407) | (3,083) | (397) | (13,424) | 13,031 |
| Earnings before income taxes ........... | 3,246 | 3,566 | 191 | 63,705 | (71,115) |
| Income tax (expense) benefit ........... | (1,092) | (1,279) | (75) | 1,952 | -- |
| Net income ............................. | $ 2,154 | 2,287 | 116 | 65,657 | (71,115) |
| Assets ................................. | $217,697 | 154,645 | 165,784 | 814,883 | (1,038,354) |
| Loans, net of ALLL ..................... | 159,412 | 114,177 | 142,114 | -- | -- |
| Goodwill ............................... | 9,553 | 12,556 | 6,451 | -- | -- |
| Deposits ............................... | 135,970 | 113,531 | 143,056 | -- | (106,457) |
| Stockholders' equity ................... | 29,110 | 29,329 | 21,207 | 676,940 | (702,183) |

74

21. OPERATING SEGMENT INFORMATION . . . CONTINUED

| 2007 (Dollars in thousands) | Glacier | Mountain West | First Security | 1st Bank | Western |
|---|---|---|---|---|---|
| Net interest income .................... | $ 40,270 | 41,115 | 32,674 | 20,135 | 19,043 |
| Provision for loan losses .............. | (1,580) | (2,225) | (1,100) | (630) | -- |
| Net interest income after provision for loan and lease losses .. | 38,690 | 38,890 | 31,574 | 19,505 | 19,043 |
| Non-interest income .................... | 13,473 | 19,861 | 6,844 | 4,212 | 8,896 |
| Core deposit amortization .............. | (415) | (208) | (554) | (688) | (675 |
| Other non-interest expense ............. | (25,231) | (36,745) | (17,295) | (13,015) | (16,050 |
| Earnings before income taxes ........... | 26,517 | 21,798 | 20,569 | 10,014 | 11,214 |
| Income tax (expense) benefit ........... | (9,294) | (7,701) | (7,027) | (3,482) | (4,129 |
| Net income ............................. | $ 17,223 | 14,097 | 13,542 | 6,532 | 7,085 |
| Assets ................................. | $1,101,112 | 1,038,294 | 792,882 | 551,327 | 508,915 |
| Loans, net of ALLL ..................... | 863,253 | 836,426 | 548,379 | 298,800 | 321,533 |
| Goodwill ............................... | 8,900 | 23,159 | 18,582 | 41,718 | 22,311 |
| Deposits ............................... | 579,190 | 666,330 | 533,260 | 439,281 | 345,273 |
| Stockholders' equity ................... | 115,247 | 114,538 | 109,320 | 87,523 | 83,226 |

| Citizens | First Bank-MT | Parent | Eliminations | Consoli |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Net interest income | $ 7,532 | 6,308 | (6,859) | -- | 183, |
| Provision for loan losses | (75) | (20) | -- | -- | (6, |
| Net interest income after provision for loan and lease losses | 7,457 | 6,288 | (6,859) | -- | 176, |
| Non-interest income | 2,550 | 736 | 84,025 | (84,169) | 64, |
| Core deposit amortization | (146) | (451) | -- | -- | (3, |
| Other non-interest expense | (6,102) | (3,426) | (13,006) | 11,710 | (134, |
| Earnings before income taxes | 3,759 | 3,147 | 64,160 | (72,459) | 103, |
| Income tax (expense) benefit | (1,403) | (1,395) | 4,443 | -- | (35, |
| Net income | $ 2,356 | 1,752 | 68,603 | (72,459) | 68, |
| Assets | $182,769 | 149,483 | 660,892 | (767,384) | 4,817, |
| Loans, net of ALLL | 131,988 | 98,897 | -- | -- | 3,557, |
| Goodwill | 9,553 | 12,556 | -- | -- | 140, |
| Deposits | 139,228 | 113,692 | -- | (35,204) | 3,184, |
| Stockholders' equity | 27,808 | 26,941 | 528,576 | (627,332) | 528, |

22. IMPACT OF RECENT AUTHORITATIVE ACCOUNTING GUIDANCE

The Accounting Standards Codification became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles ("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 SEC registrants. All other accounting literature is considered non-authoritative. The Company adopted the topic effective for the period ending September 30, 2009 and determined there was not a material effect on the Company's financial position or results of operations.



22. IMPACT OF RECENT AUTHORITATIVE ACCOUNTING GUIDANCE . . . CONTINUED

In January 2010, FASB issued an amendment to FASB ASC Topic 820, Fair Value Measurements and Disclosures, that will provide more robust disclosures about 1) the different classes of assets and liabilities measured at fair value, 2) the valuation techniques and inputs used, 3) the activity in Level 3 fair value measurements, and 4) the transfers between Levels 1, 2, and 3. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. The Company is currently evaluating the impact of the adoption of this amendment, but does not expect it to have a material effect on the Company's financial position or results of operations.

In August 2009, FASB issued an amendment to FASB ASC Subtopic 820-10, Fair Value Measurements and Disclosures - Overall, for the fair value measurement of liabilities. The Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting unit is required to measure fair value using one or more of the following techniques: 1) A valuation technique that uses a) the quoted price of the identical liability when trades as an asset b) quoted prices for similar liabilities or similar liabilities when traded as assets 2) Another valuation technique that is consistent with the principals FASB ASC Topic 820, Fair Value Measurements and Disclosures. The Update is effective for the first reporting

period (including interim periods) beginning after issuance. The Company adopted the standard effective for the period ending September 30, 2009 and determined there was not a material effect on the Company's financial position or results of operations.

In June 2009, FASB issued an amendment to FASB ASC Topic 810, Consolidation. The objective of this standard is to amend certain requirements to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This standard shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of the adoption of this amendment, but does not expect it to have a material effect on the Company's financial position or results of operations.

In June 2009, FASB issued an amendment to FASB ASC Topic 860, Transfers and Servicing. The objective of this standard is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. This standard shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of the adoption of this amendment, but does not expect it to have a material effect on the Company's financial position or results of operations.

In April 2009, FASB issued an amendment to FASB ASC Topic 320, Investments - Debt and Equity Securities, relating to the recognition and presentation of other-than-temporary impairments. The objective of an other-than-temporary impairment analysis under existing GAAP is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. This standard amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This standard does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The standard is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has evaluated the impact of the adoption of this standard and determined there was not a material effect on the Company's financial position or results of operations.

In April 2009, FASB issued an amendment to FASB ASC Topic 820, Fair Value Measurements and Disclosures, which provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This standard also includes guidance on identifying circumstances that indicate a transaction is not orderly. This standard emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This standard is effective for interim and

annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption was permitted for periods ending after March 15, 2009. The Company has evaluated the impact of the adoption of this standard and determined there was not a material effect on the Company's financial position or results of operations..





In April 2009, FASB issued an amendment to FASB ASC Topic 825, Financial Instruments, which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. An entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position. Fair value information disclosed in the notes shall be presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the statement of financial position. An entity also shall disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments and shall describe changes in method(s) and significant assumptions, if any, during the period. This standard shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has evaluated the impact of the adoption of this standard and determined there was not a material effect on the Company's financial position or results of operations. For additional information on disclosures about fair value of financial instruments see Part I, Item 2 "Financial Statements - Note 13, Fair Value Measurements".

In December 2008, the FASB issued ASC Topic 820, Fair Value Measurements and Disclosures. The standard requires public entities to provide additional disclosures about transfers of financial assets and their involvement with variable interest entities. Additionally, this standard requires certain disclosures to be provided by a public enterprise that is (a) a sponsor of a qualifying special purpose entity (SPE) that holds a variable interest in the qualifying SPE but was not the transferor (nontransferor) of financial assets to the qualifying SPE and (b) a servicer of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor (nontransferor) of financial assets to the qualifying SPE. The disclosures required by this standard are intended to provide greater transparency to financial statement users about a transferor's continuing involvement with transferred financial assets and an enterprise's involvement with variable interest entities and qualifying SPEs. The issue is effective for the first reporting period (interim or annual) ending after December 15, 2008. The Company has evaluated the impact of the adoption of this standard and determined there was not a material effect on the Company's financial position or results of operations.

In April 2008, the FASB issued ASC Topic 350, Intangibles - Goodwill and Other. This standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this standard is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This standard is effective for financial statements issued for fiscal years beginning after

December 15, 2008. The Company has evaluated the impact of the adoption of this standard and determined there was not a material effect on the Company's financial position or results of operations.

In March 2008, the FASB issued ASC Topic 815, Derivatives and Hedging. This topic changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company has evaluated the impact of the adoption of this standard and determined there was not a material effect on the Company's financial position or results of operations.

In December 2007, FASB issued new standards relating to business combinations which are included in FASB ASC Topic 805, Business Combinations. The objective of this standard is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The Statement establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company has evaluated the impact of the adoption of this standard and determined there was not a material effect on the Company's financial position or results of operations.



PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this report:

(1) Financial Statements and

(2) Financial Statement schedules required to be filed by Item 8 of this report.

(3) The following exhibits are required by Item 601 of Regulation S-K and are included as part of this Form 10-K:

| EXHIBIT NO. | EXHIBIT |
|---|---|
| 3(a) | Amended and Restated Articles of Incorporation (1) |
| 3(b) | Amended and Restated Bylaws (1) |

| | |
|---|---|
| 10(a) (7) | Amended and Restated 1995 Employee Stock Option Plan and related agreements (2) |
| 10(b) (7) | Amended and Restated 1994 Director Stock Option Plan and related agreements (2) |
| 10(c) (7) | Amended and Restated Deferred Compensation Plan effective January 1, 2008 (3) |
| 10(d) (7) | Amended and Restated Supplemental Executive Retirement Agreement effective January 1, 2008 (3) |
| 10(e) (7) | 2005 Stock Incentive Plan and related agreements (4) |
| 10(f) (7) | Employment Agreement dated January 1, 2010 between the Company and Michael J. Blodnick (5) |
| 10(g) (7) | Employment Agreement dated January 1, 2010 between the Company and Ron J. Copher (5) |
| 10(h) (7) | Employment Agreement date January 1, 2010 between the Company and Don Chery (5) |
| 14 | Code of Ethics (6) |
| 21 | Subsidiaries of the Company (See item 1, "Subsidiaries") |
| 23 | Consent of BKD LLP |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 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 |

(1) Incorporated by reference to Exhibits 3.i. and 3.ii included in the Company's Quarterly Report on form 10-Q for the quarter ended June 30, 2008.

(2) Incorporated by reference to Exhibits 99.1 - 99.4 of the Company's S-8 Registration Statement (No. 333-105995).

(3) Incorporated by reference to Exhibits 10(c) and 10(d) of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

(4) Incorporated by reference to Exhibits 99.1 through 99.3 of the Company's S-8 Registration Statement (No. 333-125024).

(5) Incorporated by reference to Exhibits 10.1 through 10.3 included in the Company's Form 8-K filed by the Company on December 29, 2009.

(6) Incorporated by reference to Exhibit 14, included in the Company's Form 10-K for the year ended December 31, 2003.

(7) Compensatory Plan or Arrangement

All other financial statement schedules required by Regulation S-X are omitted because they are not applicable, not material or because the information is included in the consolidated financial statements or related notes.



SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to this report

to be signed on its behalf by the undersigned on March 12, 2010.

GLACIER BANCORP, INC.

By: /s/ Michael J. Blodnick

Michael J. Blodnick
President/CEO/Director
(Principal Executive Officer)

By: /s/ Ron J. Copher

Ron J. Copher
Senior Vice President and CFO
(Principal Financial Accounting Officer)