GLACIER BANCORP INC
Form 10-Q
November 07, 2008

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

FORM 10-Q

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2008

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________________ to __________________

COMMISSION FILE 0-18911

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

MONTANA	81-0519541
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

49 Commons Loop, Kalispell, Montana	59901
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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

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

The number of shares of Registrant's common stock outstanding on October 21, 2008 was 54,362,092. No preferred shares are issued or outstanding.

GLACIER BANCORP, INC.
QUARTERLY REPORT ON FORM 10-Q

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GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except per share data)	SEPTEMBER 30, 2008	Dece
	(UNAUDITED)	(au
ASSETS:		
Cash on hand and in banks	$ 94,865	
Federal funds sold	--	
Interest bearing cash deposits	25,018	
Cash and cash equivalents	119,883	
Investment securities	842,348	
Loans receivable, net	3,815,622	3,
Loans held for sale	41,365	
Premises and equipment, net	123,218	
Real estate and other assets owned, net	9,506	
Accrued interest receivable	29,486	
Deferred tax asset	8,832	
Core deposit intangible, net	11,653	
Goodwill	140,301	
Other assets	30,895	
Total assets	$ 5,173,109	4,
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Non-interest bearing deposits	$ 754,623	
Interest bearing deposits	2,282,147	2,
Advances from Federal Home Loan Bank of Seattle	727,243	
Securities sold under agreements to repurchase	189,816	
Other borrowed funds	499,717	
Accrued interest payable	9,810	
Deferred tax liability	--	
Subordinated debentures	118,559	
Other liabilities	32,203	
Total liabilities	4,614,118	4,
Preferred shares, $.01 par value per share. 1,000,000 shares authorized None issued or outstanding	--	
Common stock, $.01 par value per share. 117,187,500 shares authorized	543	
Paid-in capital	387,331	
Retained earnings - substantially restricted	176,738	
Accumulated other comprehensive (loss) income	(5,621)	
Total stockholders' equity	558,991	
Total liabilities and stockholders' equity	$ 5,173,109	4,
Number of shares outstanding	54,332,527	53,
Book value per share	$ 10.29	

See accompanying notes to condensed consolidated financial statements.

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GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED - dollars in thousands, except per share data)	THREE MONTHS ENDED SEPTEMBER 30, 2008	2007	NINE ENDED SE 2008
INTEREST INCOME:			
Real estate loans	$ 12,801	15,617	37,792
Commercial loans	41,212	40,379	124,845
Consumer and other loans	11,967	12,423	35,864
Investment securities and other	9,709	10,011	27,777
Total interest income	75,689	78,430	226,278
INTEREST EXPENSE:			
Deposits	12,518	21,449	42,861
Federal Home Loan Bank of Seattle advances	2,337	5,027	12,876
Securities sold under agreements to repurchase	919	2,012	3,068
Subordinated debentures	1,852	2,023	5,578
Other borrowed funds	4,487	936	7,390
Total interest expense	22,113	31,447	71,773
NET INTEREST INCOME	53,576	46,983	154,505
Provision for loan losses	8,715	1,315	16,257
Net interest income after provision for loan losses	44,861	45,668	138,248
NON-INTEREST INCOME:			
Service charges and other fees	11,285	10,055	31,355
Miscellaneous loan fees and charges	1,515	1,798	4,629
Gains on sale of loans	3,529	3,203	11,654
Loss on investments	(7,593)	--	(7,345
Other income	3,018	1,422	5,104
Total non-interest income	11,754	16,478	45,397
NON-INTEREST EXPENSE:			
Compensation, employee benefits and related expense	21,188	20,286	63,252
Occupancy and equipment expense	5,502	4,840	15,751
Advertising and promotions expense	1,942	1,676	5,314
Outsourced data processing expense	556	553	1,870
Core deposit intangibles amortization	764	827	2,310
Other expense	7,809	7,014	21,320
Total non-interest expense	37,761	35,196	109,817
EARNINGS BEFORE INCOME TAXES	18,854	26,950	73,828
Federal and state income tax expense	6,069	9,311	25,185

NET EARNINGS	$ 12,785	17,639	48,643
Basic earnings per share	$ 0.23	0.33	0.90
Diluted earnings per share	$ 0.24	0.33	0.90
Dividends declared per share	$ 0.13	0.13	0.39
Return on average assets (annualized)	1.01%	1.50%	1.32
Return on average equity (annualized)	9.15%	13.76%	11.85
Average outstanding shares - basic	54,104,560	53,566,477	53,975,602
Average outstanding shares - diluted	54,305,005	54,004,828	54,148,583

See accompanying notes to condensed consolidated financial statements.

GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2007 AND UNAUDITED NINE MONTHS ENDED SEPTEMBER 30, 2008

	Common Stock			Re ea subst res
(Dollars in thousands, except per share data)	Shares	Amount	Paid-in capital	
Balance at December 31, 2006	52,302,820	$523	344,265	10
Comprehensive income:				
Net earnings	--	--	--	6
Unrealized gain on securities, net of reclassification adjustment and taxes	--	--	--	
Total comprehensive income				
Cash dividends declared ($.50 per share)	--	--	--	(2
Stock options exercised	550,080	6	6,148	
Stock issued in connection with acquisition	793,580	7	18,993	
Stock based compensation and tax benefit	--	--	5,322	
Balance at December 31, 2007	53,646,480	$536	374,728	15
Comprehensive income:				
Net earnings	--	--	--	4
Unrealized loss on securities, net of reclassification adjustment and taxes	--	--	--	
Total comprehensive income				
Cash dividends declared ($.39 per share)	--	--	--	(2
Stock options exercised	686,047	7	9,183	
Cumulative effect of a change in accounting principle	--	--	--	
Stock based compensation and tax benefit	--	--	3,420	
Balance at September 30, 2008 (unaudited)	54,332,527	$543	387,331	17

See accompanying notes to condensed consolidated financial statements.

GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED - dollars in thousands)	NINE MONTHS ENDED SEP 2008
OPERATING ACTIVITIES :	
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 60,649
INVESTING ACTIVITIES:	
Proceeds from sales, maturities and prepayments of investments available-for-sale	250,422
Purchases of investments available-for-sale	(415,153)
Principal collected on installment and commercial loans	820,830
Installment and commercial loans originated or acquired	(1,087,908)
Principal collections on mortgage loans	238,797
Mortgage loans originated or acquired	(286,599)
Net purchase of FHLB and FRB stock	(138)
Net cash paid for sale of Western's Lewistown branch	--
Net cash received from North Side State Bank acquisition	--
Net addition of premises and equipment	(6,507)
NET CASH USED IN INVESTING ACTIVITIES	(486,256)
FINANCING ACTIVITIES:	
Net (decrease) increase in deposits	(147,708)
Net increase (decrease) in FHLB advances and other borrowed funds	464,431
Net increase in securities sold under repurchase agreements	11,775
Cash dividends paid	(21,103)
Excess tax benefits from stock options	1,296
Proceeds from exercise of stock options and other stock issued	9,190
NET CASH PROVIDED BY FINANCING ACTIVITIES	317,881
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(107,726)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	227,609
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 119,883
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the period for: Interest	$ 75,244
Income taxes	$ 32,872

The following schedule summarizes the acquisition of North Side State Bank in 2007

NORTH SIDE
STATE BANK

Acquired	April 30, 2007
Fair Value of assets acquired	$ 128,252
Cash paid for the capital stock	8,953
Capital stock issued	19,000
Liabilities assumed	100,348

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Glacier Bancorp Inc.'s (the "Company") financial condition as of September 30, 2008 and 2007, stockholders' equity and comprehensive income for the nine months ended September 30, 2008, the results of operations for the three and nine months ended September 30, 2008 and 2007, and cash flows for the nine months ended September 30, 2008 and 2007. The condensed consolidated statement of financial condition and statement of stockholders' equity and comprehensive income of the Company as of December 31, 2007 have been derived from the audited consolidated statements of the Company as of that date.

The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results anticipated for the year ending December 31, 2008. Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

2) Organizational Structure

The Company, headquartered in Kalispell, Montana, is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation incorporated in 1990. As of September 30, 2008, the Company is the parent holding company for ten wholly-owned, independent community bank subsidiaries: 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"), First Bank of Montana ("First Bank-MT"), all located in Montana, Mountain West Bank ("Mountain West") which is located in Idaho, Utah, and Washington, Citizens Community Bank ("Citizens") located in Idaho, 1st Bank ("1st Bank") located in Wyoming, and First National Bank of Morgan ("Morgan") located in Utah.

On August 19, 2008, a definitive agreement to acquire Bank of the San Juans ("BSJ"), a community bank based in Durango, Colorado was announced. The transaction provides for the payment of $9.0 million in cash and 640,000 shares of the Company's common stock. The shares were registered on September 12, 2008 with the filing of Form S-4 with the Securities and Exchange Commission ("SEC"). As of September 30, 2008, BSJ had total assets of $146 million, net loans of $131 million and deposits of $131 million. The acquisition has received all necessary regulatory approvals and is expected to close on December 1, 2008. Upon closing, BSJ will become a wholly-owned subsidiary of the Company.

On April 30, 2008, Glacier Bank of Whitefish ("Whitefish") merged into Glacier with operations conducted under the Glacier charter. Prior period activity of Whitefish was combined and included in Glacier's historical results. The merger was accounted for as a combination of two wholly-owned subsidiaries without purchase accounting.

In addition, the Company owns four trust subsidiaries, Glacier Capital Trust II ("Glacier Trust II"), Glacier Capital Trust III ("Glacier Trust III"), Glacier Capital Trust IV ("Glacier Trust IV"), and

Citizens (ID) Statutory Trust I ("Citizens Trust I") for the purpose of issuing trust preferred securities and, in accordance with Financial Accounting Standards Board ("FASB") Interpretation 46(R), the subsidiaries are not consolidated into the Company's financial statements. The Company does not have any other off-balance sheet entities.

See Note 12 - Segment Information for selected financial data including net earnings and total assets for the parent company and each of the community bank subsidiaries. Although the consolidated total assets of the Company was $5.2 billion at September 30, 2008, eight of the ten community banks had total assets of less than $1 billion. Morgan, the smallest community bank subsidiary had $101 million in total assets, while Glacier Bank, the largest community bank subsidiary, had $1.2 billion in total assets at September 30, 2008.

The following abbreviated organizational chart illustrates the various relationships as of September 30, 2008:

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                                            -------------------------------
                                           |      Glacier Bancorp, Inc.    |
                                           |    (Parent Holding Company)   |
                                            -------------------------------
                                                          |
                                                          |
 ---------------------------------------------------------|-------------------------------------
|     Glacier Bank       |    |   Mountain West Bank     |  |  |  First Security Bank    |    |
|  (MT Community Bank)   |    |  (ID Community Bank)     |  |  |      of Missoula        |    |
|                        |    |                          |  |  |   (MT Community Bank)   |    |
  ---------------------       --------------------------    |    -------------------------     -
                                                          |
 ---------------------------------------------------------|-------------------------------------
|       1st Bank         |    |         Big Sky          |  |  |       Valley Bank       |    |
|  (WY Community Bank)   |    |       Western Bank       |  |  |        of Helena        |    |
|                        |    |    (MT Community Bank)   |  |  |   (MT Community Bank)   |    |
 ----------------------       -------------------------     |    ------------------------      --
                                                          |
 ---------------------------------------------------------|-------------------------------------
| First Bank of Montana |    |    First National Bank   |  |  |                         |    |
|  (MT Community Bank)  |    |        of Morgan         |  |  | Glacier Capital Trust II |    | G
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|                        |    |    (UT Community Bank)   |  |  |                           |    |
 ----------------------      -------------------------    |   --------------------------      --
                                                          |
                             ---------------------------------------------------------
                            | Glacier Capital Trust IV |      | Citizens (ID) Statutory  |
                            |                          |      |         Trust I          |
                             --------------------------        ------------------------
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3) Investments

A comparison of the amortized cost and estimated fair value of the Company's investment securities, available-for-sale and other investments is as follows:

INVESTMENTS AS OF SEPTEMBER 30, 2008

(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unr Gains
AVAILABLE-FOR-SALE:			
GOVERNMENT-SPONSORED ENTERPRISES:			
maturing within one year	2.45%	253	--
maturing one year through five years	0.00%	--	--
maturing five years through ten years	4.49%	252	--
maturing after ten years	1.70%	70	--
	3.26%	575	--
STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES:			
maturing within one year	3.98%	713	5
maturing one year through five years	4.53%	4,097	64
maturing five years through ten years	5.04%	16,418	778
maturing after ten years	5.07%	276,832	3,841
	5.06%	298,060	4,688
MORTGAGE-BACKED SECURITIES	4.93%	492,522	1,529
TOTAL MARKETABLE SECURITIES	4.97%	791,157	6,217
OTHER INVESTMENTS:			
Certificates of Deposits with over 90 day maturity, at cost ..	5.25%	99	--
FHLB and FRB stock, at cost	1.73%	59,952	--
Other stock, at cost	3.07%	416	--
TOTAL INVESTMENTS	4.74%	$851,624	6,217

INVESTMENTS AS OF DECEMBER 31, 2007

(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unr Gains
AVAILABLE-FOR-SALE:			
U.S. GOVERNMENT AND FEDERAL AGENCIES:			
maturing within one year	3.66%	$ 2,550	3
GOVERNMENT-SPONSORED ENTERPRISES:			
maturing within one year	4.86%	947	--
maturing one year through five years	0.00%	--	--
maturing five years through ten years	7.06%	280	--
maturing after ten years	6.47%	87	1
	5.43%	1,314	1
STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES:			
maturing within one year	4.03%	1,328	5
maturing one year through five years	4.30%	3,928	45
maturing five years through ten years	4.96%	16,847	932
maturing after ten years	5.09%	255,109	8,999
	5.06%	277,212	9,981
MORTGAGE-BACKED SECURITIES	4.55%	346,085	693
FHLMC AND FNMA STOCK	5.74%	7,593	--
TOTAL MARKETABLE SECURITIES	4.79%	634,754	10,678
OTHER INVESTMENTS:			
Certificates of Deposits with over 90 day maturity, at cost ..	5.06%	199	--
FHLB and FRB stock, at cost	1.72%	59,815	--
Other stock, at cost	3.09%	413	--
TOTAL INVESTMENTS	4.52%	$695,181	10,678

Interest income includes tax-exempt interest for the nine months ended September 30, 2008 and 2007 of $9,547,000 and $10,207,000, respectively, and for the three months ended September 30, 2008 and 2007 of $3,199,000 and $3,279,000, respectively.

Gross proceeds from sale of marketable securities for the nine months ended September 30, 2008 and 2007 were $97,002,000 and $55,501,000, respectively, resulting in gross gains of $0 and $1,000, respectively, and gross losses of $0 and $9,000, respectively. The gross proceeds and gross gains for the sale of other stock was $248,000 and $0 for the nine months ended September 30, 2008 and 2007, 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 September 30, 2008. The tax benefit associated with the OTTI charge was based on certain tax planning strategies to achieve capital gain income on certain transactions sufficient to absorb the potential capital loss realized upon the future sale of the Freddie Mac preferred stock. Such tax planning strategies became unnecessary effective with the October 3, 2008 enactment of the Emergency Economic Stabilization Act of 2008, of which Section 301 provides that loss or gain arising

from the future sale of the Company's Freddie Mac preferred stock shall be treated as ordinary in nature instead of capital in nature. The cost of any investment sold is determined by specific identification.

The investments in the Federal Home Loan Bank ("FHLB") of Seattle stock are required investments related to the Company's borrowings from FHLB of Seattle. FHLB of Seattle 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.

4) Loans and Leases

The following table summarizes the Company's loan and lease portfolio,

TYPE OF LOAN (Dollars in thousands)	At 9/30/08		At 12/31/2007		
	Amount	Percent	Amount	Percent	Amoun
Real Estate Loans:					
Residential real estate	$ 731,929	19.0%	$ 689,238	19.4%	$ 805,
Loans held for sale	41,365	1.1%	40,123	1.1%	30,
Total	773,294	20.1%	729,361	20.5%	835,
Commercial Loans:					
Real estate	1,818,472	47.1%	1,617,076	45.4%	1,405,
Other commercial	638,285	16.5%	636,351	17.9%	628,
Total	2,456,757	63.6%	2,253,427	63.3%	2,034,
Consumer and other Loans:					
Consumer	210,557	5.5%	206,724	5.8%	207,
Home equity	490,405	12.7%	432,217	12.2%	420,
Total	700,962	18.2%	638,941	18.0%	627,
Net deferred loan fees, premiums and discounts	(8,393)	-0.2%	(10,194)	-0.3%	(10,
Allowance for loan and lease losses	(65,633)	-1.7%	(54,413)	-1.5%	(52,
Loan receivable, net	$3,856,987	100.0%	$3,557,122	100.0%	$3,434,

The following table sets forth information regarding the Company's non-performing assets at the dates indicated:

(Dollars in thousands)	September 30, 2008	December 31, 2007	Septe
Real estate and other assets owned	$ 9,506	2,043	
Accruing Loans 90 days or more overdue	4,924	2,685	
Non-accrual loans	56,322	8,560	
Total non-performing assets	$70,752	13,288	1
Non-performing assets as a percentage of total bank assets	1.30%	0.27%	

Impaired loans, net of government guaranteed amounts, were $66,695,000, $23,707,000, $12,152,000 and $9,972,000 as of September 30, 2008, June 30, 2008, December 31, 2007 and September 30, 2007, respectively. The allowance for loan and lease loss includes valuation allowances of $7,514,000,

$3,030,000, $2,827,000 and $0 specific to impaired loans as of September 30, 2008, June 30, 2008, December 31, 2007, and September 30, 2007, respectively.

The following table illustrates the loan and lease loss experience:

(Dollars in thousands)	September 30, 2008	December 31, 2007	September 30, 2007
Balance at the beginning of the period	$54,413	49,259	49,259
Charge-offs	(5,765)	(3,387)	(1,975)
Recoveries	728	1,222	973
Net charge-offs	$(5,037)	(2,165)	(1,002)
Acquisition (1)	--	639	639
Provision	16,257	6,680	3,720
Balance at the end of the period	$65,633	54,413	52,616
Ratio of net charge-offs to average loans outstanding during the period	0.134%	0.064%	0.030%

(1) Increase attributable to the April 30, 2007 acquisition of North Side State Bank ("North Side") of Rock Springs, Wyoming, which was merged into 1st Bank, the Company's subsidiary bank in Evanston, Wyoming.

5) Intangible Assets

The following table sets forth information regarding the Company's core deposit intangible and mortgage servicing rights as of September 30, 2008:

(Dollars in thousands)	Core Deposit Intangible	Mortgage Servicing Rights (1)	Total
Gross carrying value	$ 25,706		
Accumulated Amortization	(14,053)		
Net carrying value	$ 11,653	1,275	12,928
WEIGHTED-AVERAGE AMORTIZATION PERIOD			
(Period in years)	10.0	9.8	10.0
AGGREGATE AMORTIZATION EXPENSE			
For the three months ended September 30, 2008	$ 764	45	809
For the nine months ended September 30, 2008	2,310	137	2,447
ESTIMATED AMORTIZATION EXPENSE			
For the year ended December 31, 2008	$ 3,032	158	3,190
For the year ended December 31, 2009	2,738	85	2,823
For the year ended December 31, 2010	2,369	83	2,452
For the year ended December 31, 2011	1,662	81	1,743
For the year ended December 31, 2012	1,300	79	1,379

(1) The mortgage servicing rights are included in other assets and the gross carrying value and accumulated amortization are immaterial and therefore not presented.

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Acquisitions are accounted for using the purchase accounting method as prescribed by Statement of Financial Accounting Standard ("SFAS") No. 141, Business Combinations. Purchase 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 for the residual amount in excess of the net fair value.

Adjustment of the allocated purchase price may be related to fair value estimates for which all information has not been obtained or required for pre-acquisition contingencies of 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. The allocation period is generally limited to one year following consummation of a business combination.

6) Deposits

The following table illustrates the amounts outstanding for deposits $100,000 and greater at September 30, 2008 according to the time remaining to maturity.

(Dollars in thousands)	Certificates of Deposit	Non-Maturity Deposits	Totals
Within three months	$111,414	1,094,012	1,205,426
Three to six months	94,387	--	94,387
Seven to twelve months ..	82,992	--	82,992

Over twelve months	49,962	--	49,962
Totals	$338,755	1,094,012	1,432,767

7) Advances and Other Borrowings

The following chart illustrates the average balances and the maximum outstanding month-end balances of amounts borrowed through FHLB of Seattle, repurchase agreements, U.S. Treasury Tax and Loan and Federal Reserve Bank discount window programs:

(Dollars in thousands)	As of and for the nine months ended September 30, 2008	As of and for the year ended December 31, 2007	As of and for the nine months ended September 30, 2007
FHLB advances:			
Amount outstanding at end of period....	$727,243	538,949	251,908
Average balance.......................	$531,961	382,243	376,381
Maximum outstanding at any month-end...	$815,860	538,949	509,519
Weighted average interest rate.........	3.22%	4.94%	5.02%
Repurchase agreements:			
Amount outstanding at end of period....	$189,816	178,041	181,301
Average balance.......................	$185,682	171,290	165,592
Maximum outstanding at any month-end...	$196,266	193,421	185,051
Weighted average interest rate.........	2.20%	4.35%	4.54%
U.S. Treasury Tax and Loan:			
Amount outstanding at end of period....	$357,095	221,409	211,950
Average balance.......................	$172,805	120,188	109,531
Maximum outstanding at any month-end...	$357,095	244,012	244,012
Weighted average interest rate.........	2.56%	5.03%	5.24%
Federal Reserve Bank discount window:			
Amount outstanding at end of period....	$140,500	--	--
Average balance.......................	$217,340	--	--
Maximum outstanding at any month-end...	$928,000	--	--
Weighted average interest rate.........	2.25%	0.00%	0.00%

8) Stockholders' Equity

The Federal Reserve Board has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. The following table illustrates the Federal Reserve Board's capital adequacy guidelines and the Company's compliance with those guidelines as of September 30, 2008.

CONSOLIDATED (Dollars in thousands)	Tier 1 (Core) Capital	Tier 2 (Total) Capital	Leverage Capital

Total stockholder's equity	$ 558,991	558,991	558,991
Less: Goodwill and intangibles	(151,954)	(151,954)	(151,954)
Plus: Allowance for loan and lease losses	--	53,433	--
Accumulated other comprehensive			
Unrealized loss on AFS securities	5,621	5,621	5,621
Subordinated debentures	115,000	115,000	115,000
Regulatory capital computed	$ 527,658	581,091	527,658
Risk weighted assets	$4,262,972	4,262,972	
Total adjusted average assets			$4,908,363
Capital as % of risk weighted assets	12.38%	13.63%	10.75%
Regulatory "well capitalized" requirement	6.00%	10.00%	5.00%
Excess over "well capitalized" requirement ...	6.38%	3.63%	5.75%

9) Computation of Earnings Per Share

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

The following schedule contains the data used in the calculation of basic and diluted earnings per share:

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months en September 30
Net earnings available to common stockholders	$12,785,000	17,639,000	48,643,0
Average outstanding shares - basic	54,104,560	53,566,477	53,975,6
Add: Dilutive stock options	200,445	438,351	172,9
Average outstanding shares - diluted ...	54,305,005	54,004,828	54,148,5
Basic earnings per share	$ 0.23	0.33	0.
Diluted earnings per share	$ 0.24	0.33	0.

There were approximately 1,442,110 and 699,747 average shares excluded from the diluted average outstanding share calculation for the nine months ended September 30, 2008 and 2007, respectively, due to the option exercise price exceeding the market price.

10) Comprehensive Income

The Company's only component of comprehensive income other than net earnings is the unrealized gains and losses on available-for-sale securities.

Dollars in thousands	For the three months ended September 30, 2008	2007	For the nin ended Septe 2008
Net earnings	$ 12,785	17,639	48,643
Unrealized holding (loss) gain arising during the period ...	(13,445)	4,533	(21,765)
Tax benefit (expense)	5,267	(1,786)	8,546
Net after tax	(8,178)	2,747	(13,219)
Reclassification adjustment for losses included in net earnings	7,593	--	7,345
Tax benefit	(2,961)	--	(2,864)
Net after tax	4,632	--	4,481
Net unrealized (loss) gain on securities	(3,546)	2,747	(8,738)
Total comprehensive income	$ 9,239	20,386	39,905

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11) Federal and State Income Taxes

The Company and its financial institution subsidiaries join together in the filing of consolidated income tax returns in the following jurisdictions: federal, Montana, Idaho and Utah. Although 1st Bank has operations in Wyoming and Mountain West has operations in Washington, neither Wyoming nor Washington impose a corporate level income tax. All required income tax returns have been timely filed. Income tax returns for the years ended December 31, 2005, 2006 and 2007 remain subject to examination by federal, Montana, Idaho and Utah tax authorities and income tax returns for the years ended December 31, 2003 and 2004 remain subject to examination by the state of Montana and Idaho.

On January 1, 2007, the Company adopted FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes. There was no cumulative effect recognized in retained earnings as a result of adopting FIN 48. The Company determined its unrecognized tax benefit to be $152,000 as of September 30, 2008.

If the unrecognized tax benefit amount was recognized, it would decrease the Company's effective tax rate from 34.1 percent to 33.9 percent. Management believes that it is unlikely that the balance of its unrecognized tax benefits will significantly increase or decrease over the next twelve months.

The Company recognizes interest related to unrecognized income tax benefits in interest expense and penalties are recognized in other expense. During the nine months ended September 30, 2008 and 2007, the Company recognized $0 interest expense and recognized $0 penalty with respect to income tax liabilities. The Company had approximately $37,000 and $50,000 accrued for the payment of interest at September 30, 2008 and 2007, respectively. The Company had accrued liabilities of $0 for the payment of penalties at September 30, 2008 and 2007.

12) Segment Information

The Company defines operating segments and evaluates segment performance internally based on individual bank charters. The following schedule provides selected financial data for the Company's operating segments. Centrally provided services to the banks are allocated based on estimated usage of those services. The operating segment identified as "Other" includes limited partnership interests that operate residential rental real estate properties which have been allocated low income housing tax credits. 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.

	Nine months ended and as of September 30,					
(Dollars in thousands)	Glacier	Mountain West	First Security	Western	1st Bank	B
Revenues from external customers	$ 63,728	64,740	41,799	22,730	21,305	1
Intersegment revenues	254	63	1,989	1,253	741	
Expenses	(49,195)	(57,870)	(32,910)	(20,966)	(17,491)	(1
Net Earnings	$ 14,787	6,933	10,878	3,017	4,555	
Total Assets	$1,186,942	1,161,017	886,303	587,465	480,283	33

	Citizens	First Bank of MT	Morgan	Parent	Other	Elim
Revenues from external customers	$ 10,855	7,036	4,158	293	134	
Intersegment revenues	168	125	254	62,395	27	(
Expenses	(9,447)	(5,452)	(3,985)	(14,045)	(182)	
Net Earnings	$ 1,576	1,709	427	48,643	(21)	(
Total Assets	$212,750	160,349	101,377	691,760	3,348	(9

(Dollars in thousands)	Nine months ended and as of September 30,					
	Glacier	Mountain West	First Security	Western	1st Bank	B
Revenues from external customers	$ 59,327	65,098	44,051	29,721	19,246	1
Intersegment revenues	116	42	1,590	1,538	1,013	
Expenses	(46,825)	(54,500)	(35,389)	(25,380)	(16,243)	(1
Net Earnings	$ 12,618	10,640	10,252	5,879	4,016	
Total Assets	$1,090,748	1,005,535	837,202	559,573	438,653	29

	Citizens	First Bank of MT	Morgan	Parent	Other	Elim
Revenues from external customers	$ 11,413	7,131	3,749	376	147	
Intersegment revenues	105	317	920	63,070	20	(
Expenses	(9,852)	(5,994)	(4,009)	(12,989)	(185)	
Net Earnings	$ 1,666	1,454	660	50,457	(18)	(
Total Assets	$189,735	140,501	96,644	650,118	3,405	(8

(Dollars in thousands)	Three months ended and as of September 30,				
	Glacier	Mountain West	First Security	Western	1st Bank
Revenues from external customers	$ 21,369	21,190	13,890	4,246	7,322
Intersegment revenues	172	38	1,054	609	103
Expenses	(17,028)	(20,223)	(11,156)	(5,892)	(5,783)
Net Earnings	$ 4,513	1,005	3,788	(1,037)	1,642
Total Assets	$1,186,942	1,161,017	886,303	587,465	480,283

First Bank

	Citizens	of MT	Morgan	Parent	Other	Eli
Revenues from external customers	$ 3,848	2,488	1,443	64	18	
Intersegment revenues	3	1	21	17,597	12	
Expenses	(3,217)	(1,905)	(1,310)	(4,876)	(40)	
Net Earnings	$ 634	584	154	12,785	(10)	
Total Assets	$212,750	160,349	101,377	691,760	3,348	(

Three months ended and as of September 30,

(Dollars in thousands)	Glacier	Mountain West	First Security	Western	1st Bank	
Revenues from external customers	$ 20,789	22,652	14,864	9,266	7,437	
Intersegment revenues	38	18	670	825	461	
Expenses	(16,407)	(18,979)	(11,892)	(8,477)	(6,277)	
Net Earnings	$ 4,420	3,691	3,642	1,614	1,621	
Total Assets	$1,090,748	1,005,535	837,202	559,573	438,653	2

	Citizens	First Bank of MT	Morgan	Parent	Other	Eli
Revenues from external customers	$ 3,864	2,527	1,322	266	62	
Intersegment revenues	105	1	288	21,880	(5)	
Expenses	(3,391)	(2,025)	(1,407)	(4,507)	(71)	
Net Earnings	$ 578	503	203	17,639	(14)	
Total Assets	$189,735	140,501	96,644	650,118	3,405	(

13) Fair Value Measurement

On January 1, 2008, the Company adopted Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements, which is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FASB issued Staff Position ("FSP") SFAS 157-2, Effective Date of SFAS No. 157, which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 has been applied prospectively as of January 1, 2008.

SFAS 157 defines fair value 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. FAS 157 also 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:

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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 September 30, 2008.

(Dollars in thousands)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total September 3 2008
Available-for-sale securities.....	$--	765,802	16,079	781,881
Total assets at fair value.....	$--	765,802	16,079	781,881

The valuation techniques for available-for-sale securities include 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, and prepayments. There have been no significant changes in the valuation techniques during the period.

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 nine month period ended September 30, 2008.

(Dollars in thousands)	Significant unobservable inputs (Level 3)

Balance as of January 1, 2008.....................	$16,948
Total unrealized loss included in other comprehensive income...........................	(645)
Amortization, accretion and principal payments.....	(224)
Balance as of September 30, 2008..................	$16,079

The change in unrealized losses related to available-for-sale securities is reported in Accumulated Other Comprehensive Income (Loss).

14) 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.

	Nine Months Ended September 30, 2008 vs. 2007 Increase (Decrease) due to:		
(Dollars in thousands)	Volume	Rate	Net
INTEREST INCOME			
Residential real estate loans	$(3,693)	(3,774)	(7,467)
Commercial loans	26,721	(17,077)	9,644
Consumer and other loans	3,887	(3,630)	257
Investment securities and other	(1,855)	56	(1,799)
Total Interest Income	25,060	(24,425)	635
INTEREST EXPENSE			
NOW accounts	59	(1,227)	(1,168)
Savings accounts	23	(592)	(569)
Money market accounts	685	(7,432)	(6,747)
Certificates of deposit	(5,121)	(4,320)	(9,441)
FHLB advances	5,836	(7,079)	(1,243)
Other borrowings and repurchase agreements	12,254	(11,686)	568
Total Interest Expense	13,736	(32,336)	(18,600)
NET INTEREST INCOME	$11,324	7,911	19,235

15) Average Balance Sheet

The following 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; (iv) interest rate spread; and (v) net interest margin. Non-accrual loans are included in the average balance of the loans.

AVERAGE BALANCE SHEET
(Dollars in thousands)

	For the Three months ended 9-30-08			For the Nine mont	
	Average Balance	Interest and Dividends	Average Yield/ Rate	Average Balance	In Div
ASSETS					
Residential real estate loans	$ 752,329	12,801	6.81%	$ 733,345	3
Commercial loans	2,429,102	41,212	6.73%	2,352,238	12
Consumer and other loans	683,876	11,967	6.94%	661,059	3
Total Loans	3,865,307	65,980	6.77%	3,746,642	19
Tax - exempt investment securities (1)	260,093	3,199	4.92%	258,411	
Other investment securities	563,454	6,510	4.62%	541,314	1
Total Earning Assets	4,688,854	75,689	6.46%	4,546,367	22
Goodwill and core deposit intangible	152,392			153,186	
Other non-earning assets	219,072			229,173	
TOTAL ASSETS	$5,060,318			$4,928,726	
LIABILITIES AND STOCKHOLDERS' EQUITY					
NOW accounts	$ 457,774	722	0.63%	$ 463,094	
Savings accounts	273,901	443	0.64%	271,385	
Money market accounts	742,205	3,811	2.04%	768,387	1
Certificates of deposit	841,248	7,542	3.56%	852,116	2
FHLB advances	301,821	2,337	3.07%	531,961	1
Repurchase agreements and other borrowed funds	1,098,834	7,258	2.62%	709,516	1
Total Interest Bearing Liabilities	3,715,783	22,113	2.36%	3,596,459	7
Non-interest bearing deposits	748,633			739,962	
Other liabilities	39,890			44,025	
Total Liabilities	4,504,306			4,380,446	
Common stock	541			539	
Paid-in capital	381,577			379,107	
Retained earnings	178,502			167,237	
Accumulated other					

comprehensive (loss) income	(4,608)	1,397
Total Stockholders' Equity	556,012	548,280
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,060,318	$4,928,726

Net interest income	$53,576		$15
Net interest spread		4.10%	
Net Interest Margin		4.53%	
Net Interest Margin (Tax Equivalent)		4.65%	
Return on average assets (annualized)		1.01%	
Return on average equity (annualized)		9.15%	

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(1) Excludes tax effect of $4,226,000 and $1,416,000 on non-taxable investment security income for the year and quarter ended September 30, 2008, respectively.

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16) Change in Accounting Principle

In September 2006, FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") for Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangement. Effective for fiscal years beginning after December 15, 2007, the EITF requires policy holders of split dollar life insurance arrangements to recognize a liability for future benefits to the employee with the option to recognize the change in accounting principle through either a cumulative-effective adjustment to beginning retained earnings or through retrospective application to all periods.

The Company has split-dollar life insurance policies that required recording a liability for future benefits. The Company opted to recognize a cumulative-effect adjustment of $997,000 to retained earnings as of January 1, 2008 due to the impracticality of obtaining prior years information.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of SFAS No. 115. SFAS 159 allows companies to report selected financial assets and liabilities at fair value. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately in the balance sheet. While SFAS 159 is effective beginning January 1, 2008, the Company has not elected the fair value option that is offered by this statement.

17) Subsequent Events

On November 3, 2008, the Company filed a shelf registration statement on Form S-3 with the SEC. The shelf registration, which was automatically declared effective upon filing, will allow the Company to raise capital from time to time, up to an aggregate of $250 million, through the sale of the Company's $.01 par value of common stock, $.01 par value preferred stock or common stock purchase warrants.

The Company also announced that it filed a prospectus supplement with the SEC for the offer of 4,000,000 shares of common stock. The Company intends to grant the underwriters an option to purchase up to an additional 600,000, or 15%, of the shares sold to cover any over-allotments. The Company intends to use the net proceeds from this offering to fund possible future acquisitions and for general corporate purposes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - THE THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO JUNE 30, 2008 AND SEPTEMBER 30, 2007

Performance Summary

The Company reported net earnings of $12.785 million for the third quarter, a decrease of $4.854 million, or 28 percent, from the $17.639 million for the third quarter of 2007. Diluted earnings per share of $.24 for the quarter decreased 27 percent from the diluted earnings per share of $.33 for the same quarter of 2007. Included in net earnings for the third quarter of 2008 is a nonrecurring charge (after-tax) of $4.602 million for other than temporary impairment with respect to investments in Freddie Mac preferred stock and Fannie Mae common stock. Also included in the net earnings for the third quarter is a nonrecurring gain (after-tax) of $1.0 million ($.02 per share) from the sale and relocation of Mountain West Bank's office facility in Ketchum, Idaho. Annualized return on average assets and return on average equity for the third quarter were 1.01 percent and 9.15 percent, respectively, which compares with prior year returns for the third quarter of 1.50 percent and 13.76 percent, respectively.

REVENUE SUMMARY
(UNAUDITED - $ IN THOUSANDS)

	Three months ended		
	September 30, 2008 (unaudited)	June 30, 2008 (unaudited)	September 30, 2007 (unaudited)
Net interest income			
Interest income	$ 75,689	$74,573	$78,430
Interest expense	22,113	22,273	31,447
Net interest income	53,576	52,300	46,983
Non-interest income			
Service charges, loan fees, and other fees	12,800	12,223	11,853
Gain on sale of loans	3,529	4,245	3,203
Loss on investments	(7,593)	--	--
Other income	3,018	913	1,422
Total non-interest income	11,754	17,381	16,478
	$ 65,330	$69,681	$63,461
Tax equivalent net interest margin	4.65%	4.75%	4.50%

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(UNAUDITED - $ IN THOUSANDS)

	$ change from June 30, 2008	$ change from September 30, 2007	% change from June 30, 2008	% S
Net interest income				
Interest income	$ 1,116	$(2,741)	1%	
Interest expense	$ (160)	$(9,334)	-1%	
Net interest income	1,276	6,593	2%	
Non-interest income				
Service charges, loan fees, and other fees	577	947	5%	
Gain on sale of loans	(716)	326	-17%	
Loss on investments	(7,593)	(7,593)	n/m	
Other income	2,105	1,596	231%	
Total non-interest income	(5,627)	(4,724)	-32%	
	$(4,351)	$ 1,869	-6%	

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n/m - not measurable

Net Interest Income

Net interest income for the quarter increased $1 million, or 2 percent, from the prior quarter, and increased $7 million, or 14 percent, over the same period in 2007. While total interest income has decreased by $3 million, or 3 percent, from the same period last year, total interest expense has decreased by $9 million, or 30 percent, from the same period last year. The decrease in total interest expense is primarily attributable to rate decreases in interest bearing deposits and lower cost borrowings. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.65 percent which is 10 basis points lower than the 4.75 percent achieved for the prior quarter and 15 basis points higher than the 4.50 percent result for the third quarter of 2007.

Provision for Loan Losses

The Company recorded a provision for loan losses of $8.7 million, an increase of $7.4 million from the same quarter in 2007. Such increase is primarily attributable to higher reserves for certain commercial real estate

loans in Western Montana and Idaho and the increase in non-performing assets at September 30, 2008 compared to September 30, 2007. Net charged-off loans during the three months ended September 30, 2008 was $3.9 million.

The determination of the allowance for loan and lease losses ("ALLL") and the related provision for loan losses is a critical accounting estimate that involves management's judgments about current environmental factors which affect loan losses, such factors including economic conditions, changes in collateral values, net charge-offs, and other factors discussed in "Financial Condition Analysis" - Allowance for Loan and Lease Losses.

Non-interest Income

Non-interest income for the quarter decreased $6 million, or 32 percent, from the prior quarter, and also decreased $5 million, or 29 percent, over the same period in 2007. The Other Income category of non-interest income includes the $1.7 million gain from the sale and relocation of Mountain West Bank's office facility in Ketchum, Idaho. Excluding this nonrecurring item and also excluding the nonrecurring $7.6 million other than temporary impairment charge on the Freddie Mac and Fannie Mae stock, non-interest income for the quarter increased $248 thousand from the prior quarter and $1.1 million over the same period in 2007. Fee income increased $577 thousand, or 5 percent, during the quarter, compared to the increase of $947 million, or 8 percent, over the same period last year. The fee income increases are attributable to the continued growth in the number of checking accounts and related service charges. Gain on sale of loans decreased $716 thousand, or 17 percent, for the quarter and increased $326 thousand, or 10 percent, over the same period last year.

NON-INTEREST EXPENSE SUMMARY
(UNAUDITED - $ IN THOUSANDS)

	Three months ended		
	September 30, 2008 (unaudited)	June 30, 2008 (unaudited)	September 30, 2007 (unaudited)
Compensation and employee benefits	$21,188	$20,967	$20,286
Occupancy and equipment expense	5,502	5,116	4,840
Advertising and promotion expense	1,942	1,833	1,676
Outsourced data processing	556	647	553
Core deposit intangibles amortization	764	767	827
Other expenses	7,809	7,113	7,014
Total non-interest expense	$37,761	$36,443	$35,196

(UNAUDITED - $ IN THOUSANDS)

	$ change from June 30, 2008	$ change from September 30, 2007	% change from June 30, 2008	% change September 2007
Compensation and employee benefits	$ 221	$ 902	1%	4%
Occupancy and equipment expense	386	662	8%	14%
Advertising and promotion expense	109	266	6%	16%
Outsourced data processing	(91)	3	-14%	1%
Core deposit intangibles amortization	(3)	(63)	0%	-8%
Other expenses	696	795	10%	11%

Total non-interest expense	$1,318	$2,565	4%	7%
	======	======		

Non-interest Expense

Non-interest expense increased by $1.3 million, or 4 percent, from the prior quarter and increased by $2.6 million, or 7 percent, from the same quarter of 2007. Compensation and benefit expense increased $221 thousand, or 1 percent, over the prior quarter, and increased $902 thousand, or 4 percent, over the same quarter of 2007. The year-over-year increase is primarily attributable to increased staffing levels, including new branches, as well as increased compensation and employee benefits, including health insurance. The number of full-time-equivalent employees has increased from 1,476 to 1,539 since September 30, 2007.

Occupancy and equipment expense increased $662 thousand, or 14 percent, while other expenses increased $795 thousand, or 11 percent, since September 30, 2007, reflecting the cost of facility upgrades, additional branch locations, and other general and administrative costs. Advertising and promotion expense increased $109 thousand, or 6 percent, from the prior quarter, and increased $266 thousand, or 16 percent, from the same quarter of 2007, such increases attributable to branch promotions and the banks continuing focus on attracting and retaining non-interest bearing and other low cost deposits.

Excluding nonrecurring items, the efficiency ratio (non-interest expense/net interest income plus non-interest income) was 53 percent for the quarter, compared to 55 percent for the 2007 third quarter, a two percentage point improvement.

RESULTS OF OPERATIONS - THE NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2007

Performance Summary

Net earnings of $48.643 million for the first nine months of 2008 is a decrease of $1.814 million, or 4 percent, of the same period last year. Diluted earnings per share of $0.90 versus $0.94 for the same period last year is a decrease of 4 percent. Included in earnings for the first nine months of 2007 is a nonrecurring $1.0 million gain ($1.6 million pre-tax) from the sale of Western Security Bank's Lewistown, Montana branch, which was partially offset by approximately $500 thousand of nonrecurring expenses from the merger of three of the acquired Citizens Development Company's ("CDC") five subsidiaries into Glacier Bancorp, Inc. subsidiaries. Included in earnings for the first nine months of 2008 are a nonrecurring gain of $150 thousand ($248 thousand pre-tax) from the first quarter sale of Principal Financial Group and mandatory redemption of a portion of Visa, Inc. shares, the nonrecurring gain of $1.0 million ($1.7 million pre-tax) from the sale and relocation of the Ketchum office facility, and the other than temporary impairment charge of $4.6 million ($7.6 million pre-tax) related to the Company's investments in Freddie Mac and Fannie Mae stock.

REVENUE SUMMARY
(UNAUDITED - $ IN THOUSANDS)

	Nine months ended September 30,			
	2008	2007	$ change	% change
Interest income	$226,278	$225,643	$ 635	0%
Interest expense	71,773	90,373	(18,600)	-21%
Net interest income	154,505	135,270	19,235	14%
Non-interest income				
Service charges, loan fees, and other fees	35,984	33,696	2,288	7%
Gain on sale of loans	11,654	9,953	1,701	17%
Loss on investments	(7,345)	(8)	(7,337)	91713%
Other income	5,104	4,940	164	3%
Total non-interest income	45,397	48,581	(3,184)	-7%
	$199,902	$183,851	$ 16,051	9%
Tax equivalent net interest margin	4.65%	4.50%		

Net Interest Income

Net interest income for the current year nine months increased $19 million, or 14 percent, over the same period in 2007. Total interest income increased $635 thousand, while total interest expense decreased $19 million, or 21 percent. The decrease in interest expense is primarily attributable to the rate decreases on interest bearing deposits and lower cost borrowings. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.65 percent, an increase of 15 basis points from the 4.50 percent for the same period in 2007.

Provision for Loan Losses

The provision for loan loss expense was $16.3 million for the first nine months of 2008, an increase of $12.5 million, or 337 percent, from the same period in 2007. Non-performing assets as a percentage of total bank assets at September 30, 2008 were at 1.30 percent, up from .24 percent at September 30, 2007. Net charged-off loans during the nine months ended September 30, 2008 were $5.037 million, compared to $1.002 million of net charged-off loans during the nine months ended September 30, 2007.

Non-interest Income

Total non-interest income decreased $3 million, or 7 percent in 2008. Excluding the current year nonrecurring items, consisting of the $7.6 million charge for other than temporary impairment on the Freddie Mac and Fannie Mae securities, the $1.7 million gain from the sale and relocation of Mountain West Bank's branch in Ketchum, Idaho, the first quarter $248 thousand combined gain from the sale of Principal Financial Group stock and mandatory redemption of a portion of Visa, Inc. shares, and also excluding the prior year nonrecurring gain from the first quarter sale of Western Security Bank's Lewistown, Montana branch, non-interest income for the nine months of 2008 increased $7.2 million from the same period in 2007. Fee income for the first nine months of 2008 increased $2 million, or 7 percent, over the first nine months of 2007, driven primarily by an increased number of loan and deposit accounts, as well as additional products and service offerings. Gain on sale of loans for the first nine months of 2008 increased $2 million, or 17 percent, over the first nine months of last year.

NON-INTEREST EXPENSE SUMMARY
(UNAUDITED - $ IN THOUSANDS)

	Nine months ended September 30,			
	2008	2007	$ change	% change
Compensation and employee benefits	$ 63,252	$ 60,386	$ 2,866	5%
Occupancy and equipment expense	15,751	14,110	1,641	12%
Advertising and promotion expense	5,314	4,697	617	13%
Outsourced data processing	1,870	2,045	(175)	-9%
Core deposit intangibles amortization	2,310	2,416	(106)	-4%
Other expenses	21,320	19,799	1,521	8%
Total non-interest expense	$109,817	$103,453	$ 6,364	6%

Non-interest Expense

Non-interest expense increased by $6 million, or 6 percent, from the same period in 2007. The first nine months of 2007 included approximately $500,000 of non-recurring expenses and costs, including overtime, associated with the January 26, 2007 merger of three of the five CDC subsidiaries into Glacier Bancorp, Inc.'s subsidiaries, and related operating system conversions. Compensation and employee benefit expense increased $3 million, or 5 percent, from the first nine months of 2007. Occupancy and equipment expense increased $2 million, or 12 percent, while other expenses increased $2 million, or 8 percent, since September 30, 2007, reflecting the cost of additional locations and facility upgrades. Advertising and promotion expense increased $617 thousand, or 13 percent, from 2007, due primarily to branch promotions and the banks continuing focus on attracting and retaining non-interest bearing and other low cost deposits. Excluding nonrecurring items, the efficiency ratio (non-interest expense/net interest income plus non-interest income) was 53 percent for the first nine months of 2008, compared to 56 percent for the same period in 2007.

FINANCIAL CONDITION ANALYSIS

As reflected in the table below, total assets at September 30, 2008 were $5.173 billion, which is $356 million, or 7 percent, greater than total assets of $4.817 billion at December 31, 2007, and $473 million, or 10 percent, greater than the September 30, 2007 total assets of $4.700 billion.

ASSETS ($ IN THOUSANDS)

	September 30, 2008 (unaudited)	December 31, 2007 (audited)	September 30, 2007 (unaudited)

Cash on hand and in banks	$ 94,865	145,697	128,230
Investment securities, interest bearing deposits, FHLB stock, FRB stock, and fed funds	867,366	782,236	803,845
Loans:			
Real estate	769,860	725,854	832,038
Commercial	2,452,102	2,247,303	2,029,117
Consumer and other	700,658	638,378	625,908
Total loans	3,922,620	3,611,535	3,487,063
Allowance for loan and lease losses	(65,633)	(54,413)	(52,616)
Total loans, net of allowance for loan and lease losses	3,856,987	3,557,122	3,434,447
Other assets	353,891	332,275	333,735
Total Assets	$5,173,109	4,817,330	4,700,257

At September 30, 2008, total loans were $3.923 billion, an increase of $102 million, or 2.7 percent (11 percent annualized) over total loans of $3.821 billion at June 30, 2008, and an increase of $311 million, or 8.6 percent (11 percent annualized) over total loans of $3.612 billion at December 31, 2007. Over the first nine months of 2008, commercial loans increased the most with an increase of $205 million, or 9 percent, followed by consumer loans,

which are primarily comprised of home equity loans, increasing by $62 million, or 10 percent, and real estate loans increased $44 million, or 6 percent from the fourth quarter of 2007. Since September 30, 2007, total loans have increased $436 million, or 12 percent, of which commercial loans increased $423 million, or 21 percent, consumer loans grew by $75 million, or 12 percent, while real estate loans decreased $62 million, or 7 percent.

Investment securities, including interest bearing deposits in other financial institutions and federal funds sold, have increased $85 million, or 11 percent, from December 31, 2007 and have increased $64 million, or 8 percent, from September 30, 2007. Investment securities represented 17 percent of total assets at September 30, 2008, compared to 16 percent of total assets at December 31, 2007, and 17 percent at September 30, 2007.

The Company typically sells a majority of long-term mortgage loans originated, retaining servicing only on loans sold to certain lenders. The sale of loans in the secondary mortgage market reduces the Company's risk of holding long-term fixed rate loans in the loan portfolio. Mortgage loans sold with servicing released for the nine months ended September 30, 2008 and 2007 were $520 million and $472 million, respectively, and for the three months ended September 30, 2008 and 2007 were $164 million and $163 million, respectively. The Company has also been active in originating commercial SBA loans, some of which are sold to investors. The amount of loans sold and serviced for others at September 30, 2008 was approximately $187 million.

Allowance for Loan and Lease Losses

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 interest rate shock testing.

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 subsidiary bank'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 credit 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 banks operate, changes in collateral values, delinquencies, non-performing assets and net charge-offs. Though not immune from global, national and local economic developments, the local market areas in which the banks operate continue to have relatively healthy economies. 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 Company considers the ALLL balance of $65.633 million adequate to cover inherent losses in the loan and lease portfolios as of September 30, 2008. 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 regulatory developments, will not require significant changes in the ALLL. Under such circumstances, this could result in enhanced provisions for credit losses. See additional risk factors in Part II - Other information, Item 1A - Risk Factors.

The Company's model of ten wholly-owned, independent community banks, each with it own loan committee, chief credit officer and Board of Directors, provides substantial local oversight to the lending and credit management function. Loan relationships exceeding a bank's loan approval limit up to $10 million are subject to

approval by the Executive Loan Committee consisting of the ten banks' chief credit officers and the Company's Credit Administrator. Loans exceeding $10 million are subject to approval by the Company's Board of Directors. 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.

At the end of each quarter, each of the subsidiary community banks analyzes its loan and lease portfolio and maintain an ALLL at a level that is appropriate and determined in accordance with accounting principals 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.

The ALLL evaluation is well documented and approved by each subsidiary bank's Board of Directors and reviewed by the Company's Board of Directors. In addition, the policy and procedures for determining the balance of the ALLL are reviewed annually by each subsidiary bank's Board of Directors and the Company's Board of Directors.

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 bank's internal credit risk rating process, is necessary to support management's evaluation of 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 following table summarizes the allocation of the ALLL:

	September 30, 2008		December 31, 2007		Se
(Dollars in thousands)	Allowance for loan and lease Losses	Percent of loans in category	Allowance for loan and lease Losses	Percent of loans in category	Allo for lo lease
Real estate loans	$ 5,971	19.7%	4,755	20.2%	5,
Commercial real estate loans	29,388	46.3%	23,010	44.6%	20,
Other commercial loans	19,321	16.2%	17,453	17.6%	17,
Consumer and other loans	10,953	17.8%	9,195	17.6%	9,
Totals	$65,633	100.0%	54,413	100.0%	52,

Each bank's ALLL is generally available to absorb losses from any segment of its loan and lease portfolio.

The increase in the ALLL for commercial real estate loans was primarily due to increases in reserves for certain commercial real estate loans in the high growth areas of Western Montana and Idaho and the increase in non-performing assets since September 30, 2007.

(Dollars in thousands)	Nine months ended September 30, 2008	Year ended December 31, 2007	Nine months ended September 30, 2007

Balance at beginning of period	$54,413	49,259	49,259
Charge-offs:			
Real estate loans	(1,211)	(306)	(103)
Commercial loans	(3,692)	(2,367)	(1,489)
Consumer and other loans	(862)	(714)	(383)
Total charge-offs	$(5,765)	(3,387)	(1,975)
Recoveries:			
Real estate loans	14	208	158
Commercial loans	466	656	520
Consumer and other loans	248	358	295
Total recoveries	$ 728	1,222	973