

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

GLACIER BANCORP INC
Form 10-Q
November 07, 2008

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

FORM 10-Q

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
(State or other jurisdiction of
incorporation or organization)

81-0519541
(IRS Employer Identification No.)

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

59901
(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 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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

INDEX

	Page

PART I. FINANCIAL INFORMATION	
Item 1 - Financial Statements	
Condensed Consolidated Statements of Financial Condition - Unaudited September 30, 2008, September 30, 2007 and audited December 31, 2007	3
Condensed Consolidated Statements of Operations - Unaudited three and nine months ended September 30, 2008 and 2007	4
Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income - audited year ended December 31, 2007 and unaudited nine months ended September 30, 2008	5
Condensed Consolidated Statements of Cash Flows - Unaudited nine months ended September 30, 2008 and 2007	6
Notes to Condensed Consolidated Financial Statements - Unaudited	7
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3 - Quantitative and Qualitative Disclosure about Market Risk	34
Item 4 - Controls and Procedures	34
PART II OTHER INFORMATION	35
Item 1 - Legal Proceedings	35
Item 1A - Risk Factors	35
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 3 - Defaults Upon Senior Securities.....	39
Item 4 - Submission of Matters to a Vote of Security Holders	39
Item 5 - Other Information	39
Item 6 - Exhibits	39
Signatures	40

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

3

GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED - dollars in thousands, except per share data)	THREE MONTHS ENDED SEPTEMBER 30,		NINE ENDED SE
	2008	2007	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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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.

4

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

(Dollars in thousands, except per share data)	Common Stock		Paid-in capital	Retained earnings
-----	Shares	Amount	-----	-----
Balance at December 31, 2006	52,302,820	\$523	344,265	10,000
Comprehensive income:				
Net earnings	--	--	--	6,000
Unrealized gain on securities, net of reclassification adjustment and taxes	--	--	--	--
Total comprehensive income				6,000
Cash dividends declared (\$.50 per share)	--	--	--	(2,000)
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	15,000
Comprehensive income:				
Net earnings	--	--	--	4,000
Unrealized loss on securities, net of reclassification adjustment and taxes	--	--	--	--
Total comprehensive income				4,000
Cash dividends declared (\$.39 per share)	--	--	--	(2,000)
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	17,000
	=====	=====	=====	=====

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

	April 30, 2007
Acquired	
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.

6

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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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.

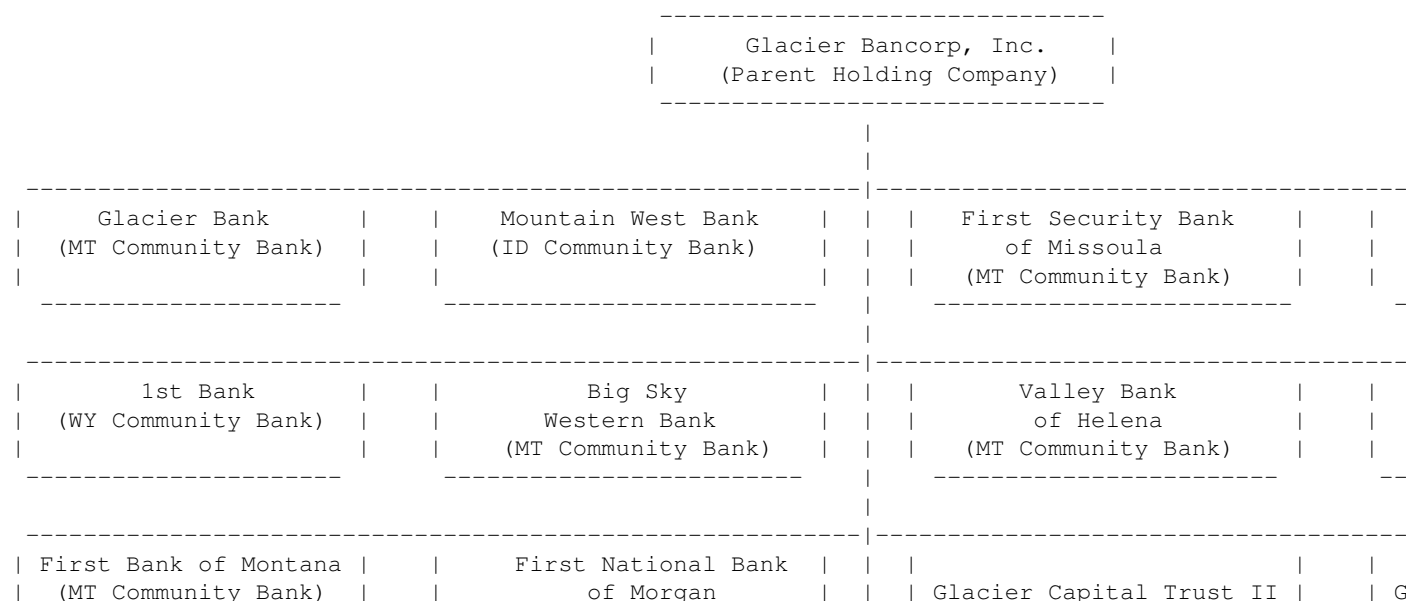
In addition, the Company owns four trust subsidiaries, Glacier Capital Trust II ("Glacier Trust II"), Glacier Capital Trust III ("Glacier Trust III"), Glacier Capital Trust IV ("Glacier Trust IV"), and

7

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:



Edgar Filing: GLACIER BANCORP INC - Form 10-Q

	(UT Community Bank)	
-----	-----	-----
	Glacier Capital Trust IV	Citizens (ID) Statutory Trust I
-----	-----	-----

8

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 Unrealized 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
		=====	=====

9

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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

10

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
	Amount	Percent	Amount	Percent	
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:

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

(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,

11

\$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:

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

(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.

12

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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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:

13

(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
--	-----------------------------	------------------------------	---------------------

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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%

14

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 ended September 30, 2007
Net earnings available to common stockholders	\$12,785,000	17,639,000	48,643,000
Average outstanding shares - basic	54,104,560	53,566,477	53,975,600
Add: Dilutive stock options	200,445	438,351	172,900
Average outstanding shares - diluted ...	54,305,005	54,004,828	54,148,500
Basic earnings per share	\$ 0.23	0.33	0.90
Diluted earnings per share	\$ 0.24	0.33	0.90

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.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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,		For the nine ended Septe
	2008	2007	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

15

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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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.

16

(Dollars in thousands)	Nine months ended and as of September 30,					
	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

(Dollars in thousands)	Nine months ended and as of September 30,					
	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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Nine months ended and as of September 30,

(Dollars in thousands)	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	(1
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

17

Three months ended and as of September 30,

(Dollars in thousands)	Glacier	Mountain West	First Security	Western	1st Bank	B
Revenues from external customers	\$ 21,369	21,190	13,890	4,246	7,322	1
Intersegment revenues	172	38	1,054	609	103	(1
Expenses	(17,028)	(20,223)	(11,156)	(5,892)	(5,783)	(1
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	29

First Bank

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

	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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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:

18

- 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 30 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)
-----	-----

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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).

19

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.

(Dollars in thousands)	Nine Months Ended September 30, 2008 vs. 2007		
	Increase (Decrease) due to:		
	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
	=====	=====	=====

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

20

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 months ended 9-30-08	
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends
ASSETS					
Residential real estate loans	\$ 752,329	12,801	6.81%	\$ 733,345	3,121
Commercial loans	2,429,102	41,212	6.73%	2,352,238	12,801
Consumer and other loans	683,876	11,967	6.94%	661,059	3,121
Total Loans	3,865,307	65,980	6.77%	3,746,642	19,043
Tax - exempt investment securities (1)	260,093	3,199	4.92%	258,411	1,041
Other investment securities	563,454	6,510	4.62%	541,314	1,041
Total Earning Assets	4,688,854	75,689	6.46%	4,546,367	21,125
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	2,801
Savings accounts	273,901	443	0.64%	271,385	1,041
Money market accounts	742,205	3,811	2.04%	768,387	1,041
Certificates of deposit	841,248	7,542	3.56%	852,116	2,801
FHLB advances	301,821	2,337	3.07%	531,961	1,041
Repurchase agreements and other borrowed funds	1,098,834	7,258	2.62%	709,516	1,041
Total Interest Bearing Liabilities	3,715,783	22,113	2.36%	3,596,459	7,706
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					

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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%

-
- (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.

21

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.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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.

22

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%

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

(UNAUDITED - \$ IN THOUSANDS)

	\$ change from June 30, 2008	\$ change from September 30, 2007	% change from June 30, 2008
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%

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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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%
	-----	-----		

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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

24

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.

25

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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.

26

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)
-----	-----	-----

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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,

27

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.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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 its 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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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:

(Dollars in thousands)	September 30, 2008		December 31, 2007		Se
	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
---	------------------------------------	---

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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
Net (charge-offs) recoveries	(5,037)	(2,165)	(1,002)
Acquisition (1)	--	639	639
Provision	16,257	6,680	3,720
Balance at end of 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%
Allowance for loan and lease lossess as a percentage of total loan and leases	1.67%	1.51%	1.51%

(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.

The ALLL has increased \$13 million, or 25 percent, from a year ago. The ALLL of \$65.633 million is 1.67 percent of September 30, 2008 total loans outstanding, up from 1.51 percent at prior year end, and up from 1.51 percent in the third quarter last year. The first nine months provision for loan and lease loss expense was \$16.3 million, an increase of \$12.5 million from the same period in 2007. Net loans and lease charge-offs were \$5.0 million, or .134 percent of average loans and leases in the first nine months of 2008, compared to net charge-offs of \$1 million, or .030 percent of average loans and leases in the first nine months of 2007.

The banks' charge-off policy is consistent with bank regulatory standards. Consumer loans generally are charged off when the loan becomes over 120 days delinquent. Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until such time as it is sold. When such property is acquired, it is recorded at estimated fair value, less estimated cost to sell. Any write-down at the time of recording real estate owned is charged to the ALLL. Any subsequent write-downs are charged to current expense.

Non-performing Assets
(Dollars in thousands)

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

	At 9/30/2008 -----	At 12/31/2007 -----	At 9/30/2007 -----
Non-accrual loans:			
Real estate loans	\$ 2,475	934	1,286
Commercial loans	52,458	7,192	5,741
Consumer and other loans	1,389	434	478
	-----	-----	-----
Total	\$56,322	8,560	7,505
Accruing Loans 90 days or more overdue:			
Real estate loans	319	840	979
Commercial loans	3,839	1,216	1,037
Consumer and other loans	766	629	451
	-----	-----	-----
Total	\$ 4,924	2,685	2,467
Real estate and other assets owned, net	9,506	2,043	1,750
	-----	-----	-----
Total non-performing loans and real estate and other assets owned, net	\$70,752	13,288	11,722
	=====	=====	=====
As a percentage of total bank assets	1.30%	0.27%	0.24%
Interest Income (1)	\$ 2,979	683	447
Allowance for loan and lease losses as a percentage of non-performing assets	93%	409%	449%
Accruing Loans 30-89 days or more overdue	\$25,690	45,490	18,099

(1) Amounts represent estimated interest income that would have been recognized on loans accounted for on a non-accrual basis for the nine months ended September 30, 2008, year ended December 31, 2007 and nine months ended September 30, 2007 had such loans performed pursuant to contractual terms.

Non-performing assets as a percentage of total bank assets at September 30, 2008 were at 1.30 percent, up from .58 percent as of June 30, 2008, and up from .24 percent at September 30, 2007. The ALLL was 93 percent of non-performing assets at September 30, 2008, down from 409 percent for the prior year end and down from 449 percent a year ago. Each of the subsidiary banks 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.

Most of the Company's non-performing assets are secured by real estate. 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.

Loans are reviewed on a regular basis and are placed on a non-accrual status 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 90 days or more unless the loan is in process of collection and well-secured by collateral the fair value of which is sufficient to discharge the debt in full. When a loan is placed on non-accrual status, interest previously accrued but not collected is generally reversed against current period interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate repayment of the loan. Interest accruals are resumed

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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.

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

31

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. When the ultimate collectibility of the total principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectibility 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 three and nine months ended September 30, 2008 and 2007 was not significant. Impaired loans, net of government guaranteed amounts, were \$66.70 million and \$9.97 million as of September 30, 2008 and 2007, respectively. The ALLL includes valuation allowances of \$7.5 million and \$0 specific to impaired loans as of September 30, 2008 and 2007, respectively.

LIABILITIES (\$ IN THOUSANDS)

	September 30, 2008 (unaudited)	December 31, 2007 (audited)	September 30, 2007 (unaudited)	\$ change December 2007
	-----	-----	-----	-----
Non-interest bearing deposits	\$ 754,623	788,087	819,711	(33,46)
Interest bearing deposits	2,282,147	2,396,391	2,547,409	(114,24)
Advances from Federal Home Loan Bank	727,243	538,949	251,908	188,29
Securities sold under agreements to repurchase and other borrowed funds	689,533	401,621	395,436	287,91
Other liabilities	42,013	45,147	51,962	(3,13)
Subordinated debentures	118,559	118,559	118,559	-
	-----	-----	-----	-----
Total liabilities	\$4,614,118	4,288,754	4,184,985	325,36
	=====	=====	=====	=====

As of September 30, 2008, non-interest bearing deposits decreased \$24 million, or 3 percent, since June 30, 2008, decreased \$33 million, or 4 percent, since December 31, 2007, and decreased \$65 million, or 8 percent, since September 30, 2007. Interest bearing deposits decreased \$114 million, or 5 percent, from December 31, 2007. The decrease of \$265 million, or 10 percent, in interest bearing deposits since September 30, 2007 includes a \$201 million decrease in higher cost brokered CD's in favor of lower cost alternative funding. Federal Home Loan Bank ("FHLB") advances at September 30, 2008 increased \$475 million, or 189 percent, from September 30, 2007 and increased \$188 million, or 35 percent, from December 31, 2007. Repurchase agreements and other borrowed funds were \$690 million at September 30, 2008, an increase of \$294 million, or 74

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

percent, from September 30, 2007, and an increase of \$288 million, or 72 percent, from December 31, 2007. Included in this latter category are U.S. Treasury Tax and Loan funds of \$357 million at September 30, 2008, an increase of \$134 million from December 31, 2007, and an increase of \$145 million from September 30, 2007.

STOCKHOLDERS' EQUITY

(\$ IN THOUSANDS EXCEPT PER SHARE DATA)

	September 30, 2008 (unaudited)	December 31, 2007 (audited)	September 30, 2007 (unaudited)
	-----	-----	-----
Common equity	\$ 564,612	525,459	513,033
Accumulated other comprehensive (loss) income	(5,621)	3,117	2,239
	-----	-----	-----
Total stockholders' equity	558,991	528,576	515,272
Core deposit intangible, net, and goodwill	(151,954)	(154,264)	(155,036)
	-----	-----	-----
	\$ 407,037	374,312	360,236
	=====	=====	=====
Stockholders' equity to total assets	10.81%	10.97%	10.96%
Tangible stockholders' equity to total tangible assets	8.11%	8.03%	7.93%
Book value per common share	\$ 10.29	9.85	9.61
Tangible book value per common share	\$ 7.49	6.98	6.72
Market price per share at end of quarter	\$ 24.77	18.74	22.52

32

Total stockholders' equity and book value per share amounts have increased \$44 million and \$.68 per share, respectively, from September 30, 2007, the result of earnings retention and exercised stock options. Tangible stockholders equity has increased \$47 million, or 13 percent since September 30, 2007, with tangible stockholders' equity at 8.11 percent of total tangible assets at September 30, 2008, up from 7.93 percent at September 30, 2007. Accumulated other comprehensive income, representing net unrealized gains or losses on investment securities designated as available for sale, decreased \$8 million from September 30, 2007.

Cash dividend

On September 24, 2008, the board of directors declared a cash dividend of \$.13 per share, payable October 16, 2008 to shareholders of record on October 7, 2008.

Liquidity and Capital Resources

The objective of liquidity management is to maintain cash flows adequate to meet current and future needs for credit demand, deposit withdrawals, maturing liabilities and corporate operating expenses. The principal source of the Company's cash revenues are dividends received from the Company's banking subsidiaries. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends which would constitute an unsafe or unsound banking practice.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

The subsidiaries' source of funds is generated by deposits, principal and interest payments on loans, sale of loans and securities, short and long-term borrowings, and net earnings. In addition, all of the banking subsidiaries are members of the FHLB of Seattle. As of September 30, 2008, the Company had \$803 million of available FHLB of Seattle credit of which \$727 million was utilized. Management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each banking subsidiary as well as the Company as a whole.

In addition, the Company is currently evaluating whether it will apply to participate in the recently announced U.S. Department of the Treasury TARP Capital Purchase Program ("CPP"). If the Company applies and is accepted for participation in the CPP, it would be eligible for a capital investment by the Department of the Treasury in shares of the Company's preferred stock, in an amount between approximately \$50 million and \$150 million. The Company cannot predict at this time whether it will participate in the CPP, or if it does determine to participate, the amount of its participation. Under current published application guidelines, an application for participation in the CPP must be submitted to the appropriate federal banking agencies by November 14, 2008.

Lending Commitments

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

Impact of Recently Issued Accounting Standards

In December 2007, FASB issued SFAS No. 141(R), Business Combinations. The objective of this Statement 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. An entity may not apply it before that date. The Company is currently evaluating the impact of the adoption of this

33

standard, but does not expect it to have a material effect on the Company's financial position or results of operations with any future business combinations.

Merger of Bank Subsidiaries

Effective April 30, 2008, Whitefish merged into Glacier with the combined operations conducted under the Glacier charter. In connection with the merger, Russ Porter, President of Whitefish, has joined Mountain West as President and Chief Operating Officer.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Effect of inflation and changing prices

Generally accepted accounting principles often require the measurement of financial position and operating results in terms of historical dollars, without consideration for change in relative purchasing power over time due to inflation. Virtually all assets of the Company and each subsidiary bank are monetary in nature; therefore, interest rates generally have a more significant impact on a company's performance than does the effect of inflation.

Forward Looking Statements

This Form 10-Q includes forward looking statements, which describe management's expectations regarding future events and developments such as future operating results, growth in loans and deposits, continued success of the Company's style of banking and the strength of the local economies in which it operates. Future events are difficult to predict, and the expectations described above are necessarily subject to risk and uncertainty that may cause actual results to differ materially and adversely. In addition to discussions about risks and uncertainties set forth from time to time in the Company's public filings, factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, among others, the following possibilities: (1) local, national and international economic conditions are less favorable than expected or have a more direct and pronounced effect on the Company than expected and adversely affect the company's ability to continue its internal growth at historical rates and maintain the quality of its earning assets; (2) changes in interest rates reduce interest margins more than expected and negatively affect funding sources; (3) projected business increases following strategic expansion or opening or acquiring new banks and/or branches are lower than expected; (4) costs or difficulties related to the integration of acquisitions are greater than expected; (5) competitive pressure among financial institutions increases significantly; (6) legislation or regulatory requirements or changes adversely affect the businesses in which the Company is engaged.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company believes that there have not been any material changes in information about the Company's market risk than was provided in the Form 10-K report for the year ended December 31, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter 2008, to which this

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no pending material legal proceedings to which the registrant or its subsidiaries are a party.

ITEM 1A. RISK FACTORS

The Company and its ten wholly-owned, independent community bank subsidiaries are exposed to certain risks. The following is a discussion of the most significant risks and uncertainties that may affect the Company's business, financial condition and future results.

The effect of the national economic situation on the Company's future results of operations or stock trading price cannot be predicted.

The national economy, and the financial services sector in particular, is currently facing challenges of a scope unprecedented in recent history. No one can predict the severity or duration of this downturn. The Company cannot predict the extent to which the more severe regional and local economic downturns that have plagued other areas of the country may also occur in the markets it serves. Any such deterioration in the Company's markets would have an adverse effect on the business, financial condition, results of operations and prospects, and could also cause the trading price of the Company's stock to decline.

The effect of the recently enacted federal rescue plan on the Company cannot be predicted.

Congress recently enacted the Emergency Economic Stabilization Act of 2008, which is intended to stabilize the financial markets, including providing funding of up to \$700 billion to purchase troubled assets and loans from financial institutions. The legislation also increases the amount of deposit account insurance coverage from \$100,000 to \$250,000 for interest-bearing deposit accounts and non-interest bearing transaction accounts, the latter of which are fully insured until December 31, 2009. Most recently, the federal government agreed to invest \$125 billion in preferred stock of nine U.S. financial institutions, and to make available up to another \$125 billion for investment in preferred stock of other U.S. financial institutions, on certain terms and conditions. The full effect of this wide-ranging legislation on the national economy and financial institutions, particularly on mid-sized institutions like the Company, cannot now be predicted.

The Company has a high concentration of loans secured by real estate.

The Company has a high concentration of loans secured by real estate, especially construction and land development loans, which carry a higher degree of risk, and a continued downturn in the real estate market, for any reason, will hurt business and prospects. In particular, if the nationwide economic decline migrates further to the markets the Company serves, the Company could be exposed to additional risk of losses from real estate related loans. The Company's business activities and credit exposure are concentrated in loans secured by real estate. A further downturn in the economies or real estate values in the markets the Company serves could have a material adverse effect on borrowers' ability to repay their loans, as well as the value of the real property held as

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

collateral securing such loans. The ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and the Company would be more likely to suffer losses on defaulted loans.

The Company's loan portfolio mix could result in increased credit risk in an economic downturn.

The loan portfolio contains a high percentage of commercial, commercial real estate, real estate acquisition and development loans in relation to the total loans and total assets. These types of loans have historically been viewed as having more risk of default than residential real estate loans or certain other types of loans or

35

investments. In fact, the Federal Deposit Insurance Company ("FDIC") has issued pronouncements alerting banks of its concern about banks with a heavy concentration of commercial real estate loans. These types of loans also typically are larger than residential real estate loans and other commercial loans. Because the Company's loan portfolio contains a significant number of commercial and commercial real estate loans with relatively large balances, the deterioration of one or more of these loans may cause a significant increase in non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, which could have an adverse impact on results of operations and financial condition.

Changes in economic conditions, in particular an economic slowdown in Idaho, Montana, Washington, Wyoming, Utah or Colorado, could hurt the banking business generally.

The Company's business is directly affected by factors such as economic, market and political conditions in its service areas, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond the Company's control. In recent months the Company has begun to see declines in economic indicators and real estate values in several of the markets served. A further deterioration in economic conditions in the states served by the bank subsidiaries could result in the following consequences, any of which could hurt business materially:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- collateral for loans made may decline in value, in turn reducing customers' borrowing power, reducing the value of assets and collateral associated with existing loans;
- market values of certain securities in the investment portfolio may decline;
- demand for banking products and services may decline;
- tightening of liquidity and a decline in borrowing capacity;
- low cost or non-interest bearing deposits may decrease; and
- a reduction of the market value of the Company's common stock.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

The Allowance for Loan and Lease Losses may not be adequate to cover actual loan losses, which could adversely affect earnings.

The Company maintains an ALLL in an amount that is believed adequate to provide for losses inherent in the portfolio. While the Company strives to monitor credit quality and to identify loans that may become non-performing, at any time there are loans in the portfolio that will result in losses that have not been identified as non-performing or potential problem loans. The Company cannot be sure that it will be able to identify deteriorating loans before they become non-performing assets, or that it will be able to limit losses on those loans that are identified. As a result, future significant additions to the ALLL may be necessary. Additionally, future additions to the ALLL may be required based on changes in the composition of the loans comprising the portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions or as a result of incorrect assumptions by management in determining the ALLL. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review the ALLL. These regulatory agencies may require the Company to increase the ALLL which could have a negative effect on the financial condition and results of operation. A critical element in determining the adequacy of the ALLL is the maintenance of the underlying collateral values, most of which are in real estate.

Fluctuating interest rates can adversely affect profitability.

The Company's profitability is dependent to a large extent upon net interest income, which is the difference (or "spread") between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of the interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the interest rate spread, and,

36

in turn, profitability. The Company cannot provide assurance that it can minimize interest rate risk. In addition, interest rates also affect the amount of money that it can lend. When interest rates rise, the cost of borrowing also increases. Accordingly, changes in levels of market interest rates could materially and adversely affect the net interest spread, asset quality, loan origination volume, business and prospects.

A continued tightening of the credit markets may make it difficult to obtain adequate funding for loan growth, which could adversely affect earnings.

A continued tightening of the credit markets and the inability to obtain money to adequately fund loan growth may negatively affect asset growth and, in turn, negatively impact earnings. In addition to deposit growth and payments of principal and interest received on loans and investment securities, the Company also relies on funding from alternative funding sources, including the FHLB and U.S. Treasury Tax and Loan Programs. In the event of a continued downturn in the economy, particularly in the housing market, these resources could be negatively affected, which could limit the funds available to the Company.

Growth through future acquisitions, which could, in some circumstances, adversely affect profitability measures.

The Company anticipates engaging in selected acquisitions of financial

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

institutions in the future. There are risks associated with the Company's acquisition strategy that could adversely impact profitability. These risks include, among others, incorrectly assessing the asset quality of a particular institution being acquired, encountering greater than anticipated costs of incorporating acquired businesses into the Company, and being unable to profitably deploy funds acquired in an acquisition. Furthermore, the Company cannot provide any assurance as to the extent to which it can continue to grow through acquisitions.

The Company anticipates issuing capital stock in connection with additional acquisitions.

These acquisitions and related issuances of stock may have a dilutive effect on earnings per share and the percentage ownership of current shareholders. Aside from the pending Bank of the San Juans acquisition, the Company does not currently have any definitive understandings or agreements for any acquisitions that involve the issuance of capital stock. However, as noted above, it is anticipated that the Company will continue to expand through acquisitions in the future.

Competition in the Company's market areas may limit future success.

Commercial banking is a highly competitive business. The Company competes with other commercial banks, savings and loan associations, credit unions, finance, insurance and other non-depository companies operating in its market areas. The Company is subject to substantial competition for loans and deposits from other financial institutions. Some of its competitors are not subject to the same degree of regulation and restriction as the Company is. Some of the Company's competitors have greater financial resources than the Company does. If the Company is unable to effectively compete in its market areas, the Company's business, results of operations and prospects could be adversely affected.

The FDIC has announced that it will increase insurance premiums to rebuild and maintain the federal deposit insurance fund.

Based on recent events and the state of the economy, the FDIC has announced that it intends to increase federal deposit insurance premiums in the immediate future. Depending on the circumstances, this increase may be significant (on average, it is likely that present premium structure will be doubled) and will add to the Company's cost of operations. Further, depending upon any future losses that the FDIC insurance fund may suffer, there can be no assurance that there will not be additional premium increases in order to replenish the fund. The Company cannot predict the amount of the anticipated premium increase or the impact on the Company.

37

Business would be harmed if the Company lost the services of any of the senior management team.

The Company believes its success to date has been substantially dependent on its Chief Executive Officer and other members of the executive management team, and on the Presidents of its subsidiary banks. The loss of any of these persons could have an adverse affect on the Company's business and future growth prospects.

The Company operates in a highly regulated environment and may be adversely affected by changes in federal, state and local laws and regulations.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

The Company is subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal, state or local legislation could have a substantial impact on the Company and its operations. Additional legislation and regulations that could significantly affect the Company's powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on its financial condition and results of operations. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by financial institutions and holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on the Company's results of operations and financial condition.

The Company may determine to issue preferred stock under the Capital Purchase Program, and any shares so issued would have certain priorities over the Company's common stock.

The Company is currently evaluating whether it will apply to participate in the recently announced U.S. Department of the Treasury TARP CPP. If the Company applies and is accepted for participation in the CPP, it would be eligible for a capital investment by the Department of the Treasury in shares of the Company's preferred stock, in an amount between approximately \$50 million and \$150 million. The Company cannot predict at this time whether it will participate in the CPP, or if it does determine to participate, the amount of its participation. Under current published application guidelines, an application for participation in the CPP must be submitted to the appropriate federal banking agencies by November 14, 2008.

Although a number of aspects of the CPP have not yet been finalized, the Department of the Treasury has announced the parameters of the program. Senior Preferred Nonvoting Stock will provide for 5% annual dividends for the first five years following issuance, and 9% per annum in subsequent years. During the first three years following issuance, prior consent of the Treasury is required for any increase in dividends on outstanding common stock or the repurchase of outstanding common stock. The Senior Preferred Nonvoting Stock may be redeemed during the first three years following issuance only with proceeds of a qualified equity offering. The Senior Preferred Nonvoting stock will be transferable by the holder.

The CPP requires the concurrent issuance of warrants to purchase a number of shares of common stock equal to 15% of the of the Senior Preferred Nonvoting Stock investment amount on the date of investment, at a purchase price equal to the average trading price of such common stock during a period prior to the date of investment. Such warrants will provide for a 10 year term, are immediately exercisable, and transferable by the holder. If the Senior Preferred Nonvoting Stock is redeemed within three years of issuance, any unexercised warrants will be adjusted to reduce the number of shares of common stock covered by such warrants by 50%.

The Company is currently evaluating the merits of participating in the CPP of the Department of the Treasury. If, and to the extent that, the Company determines to participate in the CPP, it would issue Senior Nonvoting Preferred Stock that would have rights and preferences, including among other things liquidation preference and preference with respect to dividends, which would have a priority over the Company's common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not Applicable

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

(b) Not Applicable

(c) Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) Not Applicable

(b) Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

(a) None

(b) Not Applicable

(c) None

(d) None

ITEM 5. OTHER INFORMATION

(a) Not Applicable

(b) Not Applicable

ITEM 6. EXHIBITS

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

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

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

39

SIGNATURES

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

GLACIER BANCORP, INC.

November 6, 2008

/s/ Michael J. Blodnick

Michael J. Blodnick
President/CEO

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

November 6, 2008

/s/ Ron J. Copher

Ron J. Copher
Senior Vice President/CFO

40