

GLACIER BANCORP INC  
Form 10-Q  
August 07, 2006

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**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 June 30, 2006**

**Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**COMMISSION FILE 0-18911  
GLACIER BANCORP, INC.**

(Exact name of registrant as specified in its charter)

MONTANA

81-0519541

(State or other jurisdiction of incorporation or organization)

( IRS Employer Identification No.)

49 Commons Loop, Kalispell, Montana

59901

(Address of principal executive offices)

(Zip Code)

(406) 756-4200

Registrant's telephone number, including area code

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by checkmark whether the registrant is a large accelerated filer, or an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

The number of shares of Registrant's common stock outstanding on July 26, 2006 was 32,455,541. No preferred shares are issued or outstanding.

**GLACIER BANCORP, INC.**  
**Quarterly Report on Form 10-Q**  
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**Glacier Bancorp, Inc.**  
**Condensed Consolidated Statements of Financial Condition**

|   | June 30,<br>2006<br>(unaudited) | December<br>31,<br>2005 | June 30,<br>2005<br>(unaudited) |
|---|---------------------------------|-------------------------|---------------------------------|
| (Dollars in thousands, except per share data)   |                                 |                         |                                 |
| <b>Assets:</b>  |                                 |                         |                                 |
| Cash on hand and in banks   | \$ 124,872                      | 111,418                 | 109,402                         |
| Federal funds sold  | 4,880                           | 7,537                   | 10,576                          |
| Interest bearing cash deposits  | 33,559                          | 15,739                  | 19,657                          |
| Cash and cash equivalents   | 163,311                         | 134,694                 | 139,635                         |
| Investment securities, available-for-sale   | 870,460                         | 967,970                 | 1,084,101                       |
| Loans receivable, net   | 2,630,254                       | 2,374,647               | 2,093,521                       |
| Loans held for sale   | 30,596                          | 22,540                  | 28,677                          |
| Premises and equipment, net   | 88,883                          | 79,952                  | 69,280                          |
| Real estate and other assets owned, net   | 605                             | 332                     | 2,319                           |
| Accrued interest receivable   | 20,449                          | 19,923                  | 17,820                          |
| Deferred tax asset  | 1,199                           |                         |                                 |
| Core deposit intangible, net  | 7,195                           | 8,015                   | 7,904                           |
| Goodwill  | 79,099                          | 79,099                  | 72,382                          |
| Other assets  | 21,331                          | 19,172                  | 16,296                          |
|   | <b>\$ 3,913,382</b>             | <b>3,706,344</b>        | <b>3,531,935</b>                |
| <b>Liabilities and stockholders equity:</b>   |                                 |                         |                                 |
| Non-interest bearing deposits   | \$ 720,473                      | 667,008                 | 630,983                         |
| Interest bearing deposits   | 1,972,296                       | 1,867,704               | 1,576,872                       |
| Advances from Federal Home Loan Bank of Seattle   | 435,978                         | 402,191                 | 804,047                         |
| Securities sold under agreements to repurchase  | 151,098                         | 129,530                 | 95,235                          |
| Other borrowed funds  | 162,296                         | 187,692                 | 5,576                           |
| Accrued interest payable  | 9,453                           | 7,437                   | 6,574                           |
| Deferred tax liability  |                                 | 2,746                   | 9,262                           |
| Subordinated debentures   | 85,000                          | 85,000                  | 85,000                          |
| Other liabilities   | 23,958                          | 23,797                  | 20,627                          |
| Total liabilities   | 3,560,552                       | 3,373,105               | 3,234,176                       |
| Preferred shares, \$.01 par value per share. 1,000,000 shares authorized None issued or outstanding |                                 |                         |                                 |
| Common stock, \$.01 par value per share. 78,125,000 shares authorized                               | 324                             | 322                     | 313                             |
| Paid-in capital   | 269,340                         | 262,383                 | 238,941                         |
| Retained earnings substantially restricted  | 87,644                          | 69,713                  | 51,808                          |
| Accumulated other comprehensive (loss) income   | (4,478)                         | 821                     | 6,697                           |

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|                              |                     |            |            |
|------------------------------|---------------------|------------|------------|
| Total stockholders' equity   | <b>352,830</b>      | 333,239    | 297,759    |
|                              | <b>\$ 3,913,382</b> | 3,706,344  | 3,531,935  |
| Number of shares outstanding | <b>32,439,173</b>   | 32,172,547 | 31,258,586 |
| Book value per share         | <b>\$ 10.88</b>     | 10.36      | 9.53       |

See accompanying notes to condensed consolidated financial statements.

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**Glacier Bancorp, Inc.**  
**Condensed Consolidated Statements of Operations**

|   | Three months ended June<br>30, |               | Six months ended June<br>30, |               |
|---|--------------------------------|---------------|------------------------------|---------------|
| (Unaudited dollars in thousands, except per share data) | 2006                           | 2005          | 2006                         | 2005          |
| <b>Interest income:</b>                                 |                                |               |                              |               |
| Real estate loans                                       | \$ 12,242                      | 8,097         | 23,231                       | 14,712        |
| Commercial loans  | 27,479                         | 19,588        | 53,004                       | 36,112        |
| Consumer and other loans                                | 9,654                          | 7,011         | 18,519                       | 12,741        |
| Investment securities and other                         | 10,558                         | 11,849        | 21,131                       | 23,487        |
| Total interest income                                   | 59,933                         | 46,545        | 115,885                      | 87,052        |
| <b>Interest expense:</b>                                |                                |               |                              |               |
| Deposits  | 13,761                         | 5,582         | 25,052                       | 9,651         |
| Federal Home Loan Bank of Seattle advances              | 4,417                          | 5,770         | 9,213                        | 11,013        |
| Securities sold under agreements to repurchase          | 1,471                          | 601           | 2,761                        | 999           |
| Subordinated debentures                                 | 1,284                          | 1,629         | 2,713                        | 3,184         |
| Other borrowed funds                                    | 1,374                          | 876           | 2,212                        | 1,662         |
| Total interest expense                                  | 22,307                         | 14,458        | 41,951                       | 26,509        |
| <b>Net interest income</b>                              | <b>37,626</b>                  | <b>32,087</b> | <b>73,934</b>                | <b>60,543</b> |
| Provision for loan losses                               | 1,355                          | 1,552         | 2,520                        | 3,042         |
| Net interest income after provision for loan losses     | 36,271                         | 30,535        | 71,414                       | 57,501        |
| <b>Non-interest income:</b>                             |                                |               |                              |               |
| Service charges and other fees                          | 7,392                          | 6,241         | 13,798                       | 11,445        |
| Miscellaneous loan fees and charges                     | 1,957                          | 1,609         | 3,768                        | 2,887         |
| Gains on sale of loans                                  | 2,770                          | 2,884         | 4,960                        | 4,976         |
| Loss on sale of investments                             |                                | (107)         |                              | (137)         |
| Other income  | 779                            | 886           | 1,528                        | 1,450         |
| Total non-interest income                               | 12,898                         | 11,513        | 24,054                       | 20,621        |
| <b>Non-interest expense:</b>                            |                                |               |                              |               |
| Compensation, employee benefits and related expenses    | 15,739                         | 12,474        | 31,050                       | 23,418        |
| Occupancy and equipment expense                         | 3,431                          | 3,152         | 6,922                        | 6,007         |
| Outsourced data processing expense                      | 678                            | 423           | 1,402                        | 655           |
| Core deposit intangibles amortization                   | 400                            | 384           | 820                          | 667           |
| Other expenses  | 6,702                          | 6,043         | 12,583                       | 10,803        |
| Total non-interest expense                              | 26,950                         | 22,476        | 52,777                       | 41,550        |

|                                       |                   |            |                   |            |
|---------------------------------------|-------------------|------------|-------------------|------------|
| <b>Earnings before income taxes</b>   | <b>22,219</b>     | 19,572     | <b>42,691</b>     | 36,572     |
| Federal and state income tax expense  | <b>7,553</b>      | 6,482      | <b>14,396</b>     | 11,962     |
| <b>Net earnings</b>                   | <b>\$ 14,666</b>  | 13,090     | <b>28,295</b>     | 24,610     |
| Basic earnings per share              | <b>\$ 0.45</b>    | 0.42       | <b>0.87</b>       | 0.79       |
| Diluted earnings per share            | <b>\$ 0.45</b>    | 0.41       | <b>0.86</b>       | 0.78       |
| Dividends declared per share          | <b>\$ 0.16</b>    | 0.15       | <b>0.32</b>       | 0.29       |
| Return on average assets (annualized) | <b>1.52%</b>      | 1.52%      | <b>1.50%</b>      | 1.51%      |
| Return on average equity (annualized) | <b>16.81%</b>     | 18.03%     | <b>16.51%</b>     | 17.56%     |
| Average outstanding shares basic      | <b>32,439,173</b> | 31,228,123 | <b>32,346,182</b> | 30,997,527 |
| Average outstanding shares diluted    | <b>32,897,320</b> | 31,753,966 | <b>32,861,724</b> | 31,530,648 |

See accompanying notes to condensed consolidated financial statements.

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**Glacier Bancorp, Inc.**  
**Condensed Consolidated Statements of Stockholders Equity**  
**and Other Comprehensive Income**  
**Audited year ended December 31, 2005 and Unaudited six months ended June 30, 2006**

|   | Common Stock |        | Paid-in | Retained earnings | Accumulated other comprehensive income | Total stockholders equity |
|---|--------------|--------|---------|-------------------|--|---------------------------|
| (Dollars in thousands, except per share data)                               | Shares       | Amount | capital | restricted        | (loss)                                 | equity                    |
| Balance at December 31, 2004  | 30,686,763   | \$ 307 | 227,552 | 36,391            | 5,934                                  | 270,184                   |
| Other Comprehensive income:   |              |        |         |                   |  |                           |
| Net earnings  |              |        |         | 52,373            |  | 52,373                    |
| Unrealized loss on securities, net of reclassification adjustment and taxes |              |        |         |                   | (5,113)                                | (5,113)                   |
| Total other comprehensive income  |              |        |         |                   |  | 47,260                    |
| Cash dividends declared (\$.60 per share)                                   |              |        |         | (19,051)          |  | (19,051)                  |
| Stock options exercised   | 397,770      | 4      | 5,154   |                   |  | 5,158                     |
| Stock issued in connection with acquisitions                                | 1,088,014    | 11     | 28,427  |                   |  | 28,438                    |
| Acquisition of fractional shares  |              |        | (8)     |                   |  | (8)                       |
| Tax benefit from stock related compensation                                 |              |        | 1,258   |                   |  | 1,258                     |
| Balance at December 31, 2005  | 32,172,547   | \$ 322 | 262,383 | 69,713            | 821                                    | 333,239                   |
| Other comprehensive income:   |              |        |         |                   |  |                           |
| Net earnings  |              |        |         | 28,295            |  | 28,295                    |
| Unrealized loss on securities, net of reclassification adjustment and taxes |              |        |         |                   | (5,299)                                | (5,299)                   |
| Total other comprehensive income  |              |        |         |                   |  | 22,996                    |
| Cash dividends declared (\$.32 per share)                                   |              |        |         | (10,364)          |  | (10,364)                  |
| Stock options exercised   | 266,626      | 2      | 4,102   |                   |  | 4,104                     |
| Stock based compensation and tax benefit                                    |              |        | 2,855   |                   |  | 2,855                     |
| Balance at June 30, 2006 (unaudited)  | 32,439,173   | \$ 324 | 269,340 | 87,644            | (4,478)                                | 352,830                   |

See accompanying notes to condensed consolidated financial statements.

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

| (Unaudited dollars in thousands)  | <b>Six months ended June 30,</b> |               |
|---|----------------------------------|---------------|
|   | <b>2006</b>                      | <b>2005</b>   |
| <b>OPERATING ACTIVITIES :</b>   |                                  |               |
| NET CASH PROVIDED BY OPERATION ACTIVITIES   | <b>\$ 29,695</b>                 | 27,964        |
| <br><b>INVESTING ACTIVITIES:</b>  |                                  |               |
| Proceeds from sales, maturities and prepayments of investments available-for-sale | <b>127,238</b>                   | 231,317       |
| Purchases of investments available-for-sale                                       | <b>(40,792)</b>                  | (103,175)     |
| Principal collected on installment and commercial loans                           | <b>561,767</b>                   | 292,459       |
| Installment and commercial loans originated or acquired                           | <b>(738,245)</b>                 | (501,339)     |
| Principal collections on mortgage loans   | <b>186,314</b>                   | 243,728       |
| Mortgage loans originated or acquired   | <b>(267,961)</b>                 | (265,167)     |
| Net purchase of FHLB and FRB stock  | <b>(434)</b>                     | (14)          |
| Net funds received on acquisition of banks and branches                           |                                  | 3,651         |
| Net addition of premises and equipment  | <b>(11,889)</b>                  | (7,044)       |
| <br>NET CASH USED IN INVESTING ACTIVITIES   | <br><b>(184,002)</b>             | <br>(105,584) |
| <br><b>FINANCING ACTIVITIES:</b>  |                                  |               |
| Net increase in deposits  | <b>158,056</b>                   | 128,750       |
| Net increase (decrease) in FHLB advances and other borrowed funds                 | <b>8,391</b>                     | (16,367)      |
| Net increase in securities sold under repurchase agreements                       | <b>21,568</b>                    | 19,078        |
| Cash dividends paid   | <b>(10,365)</b>                  | (9,193)       |
| Excess tax benefits from stock options  | <b>1,170</b>                     |               |
| Proceeds from exercise of stock options and other stock issued                    | <b>4,104</b>                     | 2,688         |
| Cash paid for stock split   |                                  | (8)           |
| <br>NET CASH PROVIDED BY FINANCING ACTIVITIES                                     | <br><b>182,924</b>               | <br>124,948   |
| <br>NET INCREASE IN CASH AND CASH EQUIVALENTS                                     | <br><b>28,617</b>                | <br>47,328    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                  | <b>134,694</b>                   | 92,307        |
| <br>CASH AND CASH EQUIVALENTS AT END OF PERIOD                                    | <br><b>\$ 163,311</b>            | <br>139,635   |
| <br><b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                       |                                  |               |
| Cash paid during the period for: Interest   | <b>\$ 39,935</b>                 | 24,799        |
| Income taxes  | <b>\$ 13,029</b>                 | 10,430        |
| See accompanying notes to condensed consolidated financial statements.            |                                  |               |

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**Notes to Condensed Consolidated Financial Statements (unaudited)**

1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Glacier Bancorp Inc. s (the Company ) financial condition as of June 30, 2006, and June 30, 2005, stockholders' equity for the six months ended June 30, 2006, the results of operations for the three and six months ended June 30, 2006 and 2005, and cash flows for the six months ended June 30, 2006 and 2005. The condensed consolidated statement of financial condition and statement of stockholders' equity and other comprehensive income of the Company as of December 31, 2005 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 the accounting principals 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, 2005. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results anticipated for the year ending December 31, 2006. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 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. The Company is the parent company for nine wholly owned banking 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 ), and Glacier Bank of Whitefish ( Whitefish ), all located in Montana, Mountain West Bank ( Mountain West ) which is located in Idaho, Utah, and Washington, Citizens Community Bank ( Citizens ) located in Idaho, and 1st Bank ( 1st Bank , formerly known as First National Bank ) located in Wyoming. In addition, the Company owns three subsidiaries, Glacier Capital Trust II ( Glacier Trust II ), Glacier Capital Trust III ( Glacier Trust III ), and Citizens (ID) Statutory Trust I ( Citizens Trust I ) for the purpose of issuing trust preferred securities and in accordance with Financial Accounting Standards Board Interpretation 46(R) the subsidiaries are not consolidated into the Company s financial statements. The Company does not have any off-balance sheet entities.

On February 1, 2006, Glacier Capital Trust I, whose common equity was wholly owned by the Company, had 1,400,000 shares of trust preferred securities redeemed and the Subordinated Debentures of \$35,000,000 paid. The Subordinated Debentures were replaced by Glacier Trust III.

On January 31, 2006, 35,000 shares of trust preferred shares were issued by Glacier Trust III whose common equity is wholly owned by the Company. The Trust Preferred Securities bear a cumulative fixed interest rate of 6.078% for the first five years and then converts to a three month LIBOR plus 1.29% rate adjustable quarterly for the remaining term until maturity on April 7, 2036. Interest distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures of \$35,000,000 at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption.

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The following abbreviated organizational chart illustrates the various relationships:

## 3) Ratios

Returns on average assets and average equity were calculated based on daily averages.

## 4) Dividends Declared

On June 28, 2006, the Board of Directors declared a \$.16 per share quarterly cash dividend payable on July 20, 2006 to stockholders of record on July 11, 2006.

## 5) 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<br>months ended<br>June 30, 2006 | Three<br>months<br>ended<br>June 30,<br>2005 | Six<br>months<br>ended<br>June 30,<br>2006 | Six<br>months<br>ended<br>June 30,<br>2005 |
|---|--|--|--|--|
| Net earnings available to common stockholders | \$ <b>14,666,000</b>                   | 13,090,000                                   | <b>28,295,000</b>                          | 24,610,000                                 |
| Average outstanding shares basic              | <b>32,439,173</b>                      | 31,228,123                                   | <b>32,346,182</b>                          | 30,997,527                                 |
| Add: Dilutive stock options                   | <b>458,147</b>                         | 525,843                                      | <b>515,542</b>                             | 533,121                                    |
| Average outstanding shares diluted            | <b>32,897,320</b>                      | 31,753,966                                   | <b>32,861,724</b>                          | 31,530,648                                 |
| Basic earnings per share                      | \$ <b>0.45</b>                         | 0.42   | <b>0.87</b>                                | 0.79                                       |
| Diluted earnings per share                    | \$ <b>0.45</b>                         | 0.41   | <b>0.86</b>                                | 0.78                                       |

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There were approximately 484,725 and 297,448 average shares excluded from the six months ended diluted share calculation as of June 30, 2006, and 2005, respectively, due to the option exercise price exceeding the market price.

**6) Stock Based Compensation**

The Company has three stock based compensation plans outstanding. The Directors 1994 Stock Option Plan was approved to provide for the grant of options to outside Directors of the Company. The Employees 1995 Stock Option Plan was approved to provide the grant of options to certain full-time employees of the Company. The Employees 1995 Stock Option Plan expired in April 2005 and has granted but unexpired options outstanding. The 2005 Stock Incentive Plan was approved by shareholders on April 27, 2005 which provides awards to certain full-time employees of the Company. The 2005 Stock Incentive Plan permits the granting of options, share appreciation rights, restricted shares, restricted share units, and unrestricted shares, deferred share units, and performance awards. Upon exercise of the stock options the shares are obtained from the authorized and unissued stock.

The Company adopted SFAS No. 123 (Revised) *Share-Based Payment*, as of January 1, 2006 and, accordingly, has determined compensation cost based on the fair value of the option at the grant date. The Company adopted the modified prospective transition method in reporting financial statement results in the current and for future reporting periods. Under the modified prospective method, SFAS No. 123 (Revised) applies to new awards and to awards modified, repurchased, or cancelled after the effective date; accordingly the prior interim and annual periods do not reflect restated amounts. Additionally, the compensation cost for the portion of awards outstanding for which the requisite service has not been rendered that are outstanding as of the required effective date are recognized as the requisite service is rendered on or after the required effective date. For the six months ended June 30, 2006, the compensation cost for the stock option plans was \$1,684,000, with a corresponding income tax benefit of \$500,000, resulting in a net earnings and cash flow from operations reduction of \$1,184,000, or a decrease of \$.036 per share for both basic and diluted earnings per share. For the three months ended June 30, 2006, the compensation cost for the stock option plans was \$961,000, with a corresponding income tax benefit of \$300,000, resulting in a net earnings and cash flow from operations reduction of \$661,000, or a decrease of \$.02 per share for both basic and diluted earnings per share. Additionally, in the cash flow statement, the excess tax benefit from stock options decreased the net cash provided from operating activities and increased the net cash provided by financing activities by \$1,170,000 and \$696,000 for the six and three months ended June 30, 2006, respectively. Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards which are expected to be recognized over the next 1.2 years was \$2,089,000 as of June 30, 2006. The total fair value of shares vested during the six months ended June 30, 2006 and 2005 was \$535,000 and \$558,000, respectively. The total fair value of shares vested during the three months ended June 30, 2006 and 2005 was \$0 and \$21,000, respectively.

Prior to the adoption of SFAS No. 123 (Revised), the Company utilized the intrinsic value method and compensation cost was the excess of the market price of the stock at the grant date over the amount an employee must pay to acquire the stock. The exercise price of all stock options granted has been equal to the fair market value of the underlying stock at the date of grant and, accordingly, the intrinsic value has been \$0 and no compensation cost was recognized prior to the adoption of SFAS No. 123 (Revised). The Company did not modify any outstanding options prior to the adoption of the standard. If the Company had determined compensation cost based on fair value of the options at the grant date under SFAS 123 (Revised) prior to the date of adoption, the Company's net income would have been reduced to the pro forma amounts indicated below:

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|                              |                   | June 30, 2005<br>Three months<br>ended | June 30, 2005<br>Six months ended |
|------------------------------|-------------------|--|-----------------------------------|
| Net earnings (in thousands): | As reported       | \$ 13,090                              | 24,610                            |
|                              | Compensation cost | (207)                                  | (415)                             |
|                              | Pro forma         | 12,883                                 | 24,195                            |
| Basic earnings per share:    | As reported       | 0.42                                   | 0.79                              |
|                              | Compensation cost | (0.01)                                 | (0.01)                            |
|                              | Pro forma         | 0.41                                   | 0.78                              |
| Diluted earnings per share:  | As reported       | 0.41                                   | 0.78                              |
|                              | Compensation cost |  | (0.01)                            |
|                              | Pro forma         | 0.41                                   | 0.77                              |

The per share weighted-average fair value of stock options granted during 2006 and 2005 was \$6.47 and \$3.52, respectively, on the date of grant using the Black Scholes option-pricing model with the following assumptions: 2006 expected dividend yield 2.23%, risk-free interest rate of 4.35%, volatility ratio of 27%, and expected life of 3.3 years: 2005 expected dividend yield 2.23%, risk-free interest rate of 3.44%, volatility ratio of 18%, and expected life of 3.4 years. Expected volatilities are based on historical volatility and other factors. The Company uses historical data to estimate option exercise and termination with the valuation model. Employee and director awards, which have dissimilar historical exercise behavior, are considered separately for valuation purposes. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at the time of the grant. The option awards generally vest upon six month or two years of service for directors and employees, respectively, and generally expire in five years.

Change in shares granted for stock options for the six months ended June 30, 2006 and the year ended December 31, 2005, are summarized as follows:

|                            | Options outstanding |  | Options exercisable |  |
|----------------------------|---------------------|--|---------------------|--|
|                            | Shares              | Weighted<br>average<br>exercise<br>price | Shares              | Weighted<br>average<br>exercise<br>price |
| Balance, December 31, 2004 | 1,510,631           | 14.65                                    | 703,015             | 11.61                                    |
| Canceled                   | (29,882)            | 21.05                                    | (4,974)             | 9.77                                     |
| Granted                    | 587,761             | 25.03                                    |                     |  |
| Became exercisable         |                     |  | 525,759             | 16.31                                    |
| Exercised                  | (398,110)           | 12.95                                    | (398,110)           | 12.95                                    |
| Balance, December 31, 2005 | 1,670,400           | 18.58                                    | 825,690             | 14.25                                    |
| Canceled                   | (39,910)            | 23.04                                    | (13,980)            | 17.41                                    |

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|                        |           |       |           |       |
|------------------------|-----------|-------|-----------|-------|
| Granted                | 650,792   | 31.44 |           |       |
| Became exercisable     |           |       | 381,340   | 20.14 |
| Exercised              | (266,626) | 15.39 | (266,626) | 15.39 |
| Balance, June 30, 2006 | 2,014,656 | 23.07 | 926,424   | 16.30 |

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The range of exercise prices on options outstanding and exercisable at June 30, 2006 is as follows:

| Price range       | Options Outstanding | Weighted average exercise price | Weighted average remaining contractual life of options | Options Exercisable | Options exercisable Weighted average exercise price |
|-------------------|---------------------|---------------------------------|--|---------------------|---|
| \$5.19 - \$6.99   | 103,430             | \$ 6.32                         | 1.4 years  | 103,430             | \$ 6.32   |
| \$8.96 - \$11.32  | 31,484              | 9.82                            | 1.7 years  | 31,484              | 9.82  |
| \$12.17 - \$13.20 | 108,693             | 12.68                           | .6 years   | 108,693             | 12.68   |
| \$14.09 - \$17.45 | 245,533             | 14.29                           | 1.6 years  | 245,533             | 14.29   |
| \$19.50 - \$21.24 | 345,273             | 20.07                           | 2.6 years  | 340,898             | 20.06   |
| \$24.99 - \$28.35 | 534,123             | 25.05                           | 3.6 years  | 96,386              | 25.01   |
| \$31.44           | 646,120             | 31.44                           | 4.6 years  |                     |   |
|                   | 2,014,656           | 23.07                           | 3.5 years  | 926,424             | 16.30   |

## 7) Investments

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

**INVESTMENTS AS OF JUNE 30, 2006**

| (Dollars in thousands)                               | Weighted Yield | Amortized Cost | Gross Unrealized Gains | Unrealized Losses | Estimated Fair Value |
|--|----------------|----------------|------------------------|-------------------|----------------------|
| <b>U.S. Government and Federal Agencies:</b>         |                |                |                        |                   |                      |
| maturing within one year                             | 4.10%          | \$ 1,491       |                        | (13)              | 1,478                |
| maturing within five years                           | 4.61%          | 2,981          |                        | (34)              | 2,947                |
| maturing five years through ten years                | 7.18%          | 355            | 4                      | (1)               | 358                  |
| maturing after ten years                             | 6.19%          | 202            | 1                      |                   | 203                  |
|  | 4.70%          | 5,029          | 5                      | (48)              | 4,986                |
| <b>State and Local Governments and other issues:</b> |                |                |                        |                   |                      |
| maturing within one year                             | 3.88%          | 2,392          | 1                      | (5)               | 2,388                |
| maturing one year through five years                 | 4.69%          | 3,759          | 29                     | (63)              | 3,725                |
| maturing five years through ten years                | 4.96%          | 12,228         | 527                    | (23)              | 12,732               |
| maturing after ten years                             | 5.12%          | 282,219        | 8,482                  | (652)             | 290,049              |
|  | 5.10%          | 300,598        | 9,039                  | (743)             | 308,894              |
| <b>Mortgage-Backed Securities</b>                    | 4.76%          | 58,376         | 151                    | (2,565)           | 55,962               |
|  | 4.24%          | 452,290        | 13                     | (12,700)          | 439,603              |



**Real Estate Mortgage Investment  
Conduits**

|                                    |       |            |       |          |         |
|------------------------------------|-------|------------|-------|----------|---------|
| <b>FHLMC and FNMA stock</b>        | 5.74% | 7,593      |       | (541)    | 7,052   |
| <b>FHLB and FRB stock, at cost</b> | 0.93% | 53,963     |       |          | 53,963  |
| <b>Total Investments</b>           | 4.38% | \$ 877,849 | 9,208 | (16,597) | 870,460 |

Table of Contents**INVESTMENTS AS OF DECEMBER 31, 2005**

| (Dollars in thousands)                               | Weighted<br>Yield | Amortized<br>Cost | Gross Unrealized<br>Gains | Losses   | Estimated<br>Fair<br>Value |
|--|-------------------|-------------------|---------------------------|----------|----------------------------|
| <b>U.S. Government and Federal Agencies:</b>         |                   |                   |                           |          |                            |
| maturing within one year                             | 4.54%             | \$ 1,236          |                           | (2)      | 1,234                      |
| maturing one year through five years                 | 4.32%             | 3,962             |                           | (39)     | 3,923                      |
| maturing five years through ten years                | 6.55%             | 324               | 6                         |          | 330                        |
| maturing after ten years                             | 5.04%             | 337               | 2                         |          | 339                        |
|  | 4.53%             | 5,859             | 8                         | (41)     | 5,826                      |
| <b>State and Local Governments and other issues:</b> |                   |                   |                           |          |                            |
| maturing within one year                             | 4.16%             | 365               | 3                         |          | 368                        |
| maturing one year through five years                 | 4.75%             | 6,858             | 48                        | (143)    | 6,763                      |
| maturing five years through ten years                | 5.08%             | 8,728             | 365                       | (16)     | 9,077                      |
| maturing after ten years                             | 5.10%             | 287,175           | 12,476                    | (225)    | 299,426                    |
|  | 5.09%             | 303,126           | 12,892                    | (384)    | 315,634                    |
| <b>Mortgage-Backed Securities</b>                    | 4.67%             | 65,926            | 308                       | (1,599)  | 64,635                     |
| <b>Real Estate Mortgage Investment Conduits</b>      | 4.22%             | 530,582           | 154                       | (9,653)  | 521,083                    |
| <b>FHLMC and FNMA stock</b>                          | 5.74%             | 7,593             |                           | (330)    | 7,263                      |
| <b>FHLB and FRB stock, at cost</b>                   | 0.66%             | 53,529            |                           |          | 53,529                     |
| <b>Total Investments</b>                             | 4.34%             | \$ 966,615        | 13,362                    | (12,007) | 967,970                    |

Interest income includes tax-exempt interest for the six months ended June 30, 2006 and 2005 of \$6,947,000 and \$6,932,000, respectively, and for the three months ended June 30, 2006 and 2005 of \$3,459,000 and \$3,465,000, respectively.

Gross proceeds from sales of investment securities for the six months ended June 30, 2006 and 2005 were \$0 and \$116,014,000 respectively, resulting in gross gains of approximately \$0 and \$471,000 and gross losses of approximately \$0 and \$608,000, respectively. The cost of any investment sold is determined by specific identification.

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## 8) Loans

The following table summarizes the Company's loan portfolio:

| TYPE OF LOAN<br>(Dollars in thousands)               | At<br>6/30/2006     |               | At<br>12/31/2005    |               | At<br>6/30/2005     |               |
|--|---------------------|---------------|---------------------|---------------|---------------------|---------------|
|  | Amount              | Percent       | Amount              | Percent       | Amount              | Percent       |
| <b>Real Estate Loans:</b>                            |                     |               |                     |               |                     |               |
| Residential real estate                              | \$ 670,860          | 25.2%         | \$ 589,260          | 24.6%         | \$ 480,626          | 22.6%         |
| Loans held for sale                                  | 30,596              | 1.2%          | 22,540              | 0.9%          | 28,677              | 1.4%          |
| <b>Total</b>   | <b>701,456</b>      | <b>26.4%</b>  | <b>611,800</b>      | <b>25.5%</b>  | <b>509,303</b>      | <b>24.0%</b>  |
| <b>Commercial Loans:</b>                             |                     |               |                     |               |                     |               |
| Real estate  | 819,287             | 30.8%         | 781,181             | 32.6%         | 623,411             | 29.3%         |
| Other commercial                                     | 671,175             | 25.2%         | 579,515             | 24.2%         | 595,970             | 28.1%         |
| <b>Total</b>   | <b>1,490,462</b>    | <b>56.0%</b>  | <b>1,360,696</b>    | <b>56.8%</b>  | <b>1,219,381</b>    | <b>57.4%</b>  |
| <b>Consumer and other Loans:</b>                     |                     |               |                     |               |                     |               |
| Consumer   | 186,493             | 7.0%          | 175,503             | 7.3%          | 148,144             | 7.0%          |
| Home equity  | 331,716             | 12.5%         | 295,992             | 12.3%         | 285,956             | 13.5%         |
| <b>Total</b>   | <b>518,209</b>      | <b>19.5%</b>  | <b>471,495</b>      | <b>19.6%</b>  | <b>434,100</b>      | <b>20.5%</b>  |
| Net deferred loan fees,<br>premiums<br>and discounts | (8,082)             | -0.3%         | (8,149)             | -0.3%         | (7,669)             | -0.4%         |
| Allowance for loan losses                            | (41,195)            | -1.6%         | (38,655)            | -1.6%         | (32,917)            | -1.5%         |
| <b>Loan receivable, net</b>                          | <b>\$ 2,660,850</b> | <b>100.0%</b> | <b>\$ 2,397,187</b> | <b>100.0%</b> | <b>\$ 2,122,198</b> | <b>100.0%</b> |

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

| NONPERFORMING ASSETS<br>(Dollars in thousands) | At<br>6/30/2006 | At<br>12/31/2005 | At<br>6/30/2005 |
|--|-----------------|------------------|-----------------|
| <b>Non-accrual loans:</b>                      |                 |                  |                 |
| Real estate loans                              | \$ 1,287        | 726              | 8               |
| Commercial loans                               | 2,997           | 4,045            | 4,603           |
| Consumer and other loans                       | 868             | 481              | 305             |
| <b>Total</b>                                   | <b>\$ 5,152</b> | <b>5,252</b>     | <b>4,916</b>    |
| <b>Accruing Loans 90 days or more overdue:</b> |                 |                  |                 |
| Real estate loans                              | 512             | 1,659            | 261             |
| Commercial loans                               | 2,475           | 2,199            | 431             |
| Consumer and other loans                       | 199             | 647              | 166             |
| <b>Total</b>                                   | <b>\$ 3,186</b> | <b>4,505</b>     | <b>858</b>      |
| <b>Real estate and other assets owned, net</b> | <b>605</b>      | <b>332</b>       | <b>2,319</b>    |

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|   |          |        |       |
|---|----------|--------|-------|
| Total non-performing loans and real estate and other assets owned,<br>net | \$ 8,943 | 10,089 | 8,093 |
| As a percentage of total assets   | 0.23%    | 0.26%  | 0.23% |
| Interest Income (1)   | \$ 190   | 359    | 161   |

(1) This is the amount of interest that would have been recorded on loans accounted for on a non-accrual basis for the six months ended June 30, 2006 and 2005 and the year ended December 31, 2005, if such loans had been current for the entire period.

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The following table illustrates the loan loss experience:

|   | Six months<br>ended | Year ended<br>December | Six months<br>ended |
|---|---------------------|------------------------|---------------------|
| ALLOWANCE FOR LOAN LOSS<br>(Dollars in thousands)                                       | June 30,<br>2006    | 31,<br>2005            | June 30,<br>2005    |
| Balance at beginning of period  | \$ 38,655           | 26,492                 | 26,492              |
| Charge offs:  |                     |                        |                     |
| Real estate loans   | (2)                 | (115)                  | (57)                |
| Commercial loans  | (324)               | (744)                  | (562)               |
| Consumer and other loans  | (202)               | (539)                  | (269)               |
| Total charge-offs   | \$ (528)            | (1,398)                | (888)               |
| Recoveries:   |                     |                        |                     |
| Real estate loans   | 295                 | 82                     | 70                  |
| Commercial loans  | 70                  | 414                    | 203                 |
| Consumer and other loans  | 183                 | 415                    | 164                 |
| Total recoveries  | \$ 548              | 911                    | 437                 |
| Net recoveries (charge-offs)  | 20                  | (487)                  | (451)               |
| Acquisition (1)   |                     | 6,627                  | 3,834               |
| Provision   | 2,520               | 6,023                  | 3,042               |
| Balance at end of period  | \$ 41,195           | 38,655                 | 32,917              |
| Ratio of net recoveries (charge-offs) to average loans<br>outstanding during the period | 0.00%               | -0.02%                 | -0.02%              |

(1) Acquisition of  
First State Bank,  
1st Bank,  
Citizens  
Community  
Bank, and  
Bonner's Ferry  
branch

The following table summarizes the allocation of the allowance for loan losses:

|                        | June 30, 2006 |                                       | December 31, 2005 |                                       | June 30, 2005 |                                       |
|------------------------|---------------|---------------------------------------|-------------------|---------------------------------------|---------------|---------------------------------------|
| (Dollars in thousands) | Allowance     | Percent<br>of loans<br>in<br>category | Allowance         | Percent<br>of loans<br>in<br>category | Allowance     | Percent<br>of loans<br>in<br>category |
| Real estate loans      | \$ 4,940      | 25.9%                                 | 4,318             | 25.0%                                 | 3,415         | 23.6%                                 |

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|                              |           |        |        |        |        |        |
|------------------------------|-----------|--------|--------|--------|--------|--------|
| Commercial real estate loans | 14,821    | 30.2%  | 14,370 | 32.0%  | 10,646 | 28.8%  |
| Other commercial loans       | 13,589    | 24.8%  | 12,566 | 23.7%  | 12,708 | 27.6%  |
| Consumer and other loans     | 7,845     | 19.1%  | 7,401  | 19.3%  | 6,148  | 20.0%  |
| Totals                       | \$ 41,195 | 100.0% | 38,655 | 100.0% | 32,917 | 100.0% |

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## 9) Intangible Assets

The following table sets forth information regarding the Company's core deposit intangibles and mortgage servicing rights as of June 30, 2006:

| (Dollars in thousands)   | Core<br>Deposit<br>Intangible | Mortgage<br>Servicing Rights<br>(1) | Total |
|--|-------------------------------|-------------------------------------|-------|
| Gross carrying value   | \$ 14,816                     |                                     |       |
| Accumulated Amortization   | (7,621)                       |                                     |       |
| Net carrying value   | \$ 7,195                      | 1,118                               | 8,313 |
| <b>Weighted-Average amortization period</b><br>(Period in years) | 10.0                          | 9.5                                 | 9.9   |
| <b>Aggregate Amortization Expense</b>                            |                               |                                     |       |
| For the three months ended June 30, 2006                         | \$ 400                        | 46                                  | 446   |
| For the six months ended June 30, 2006                           | \$ 820                        | 99                                  | 919   |
| <b>Estimated Amortization Expense</b>                            |                               |                                     |       |
| For the year ended December 31, 2006                             | \$ 1,612                      | 139                                 | 1,751 |
| For the year ended December 31, 2007                             | 1,508                         | 77                                  | 1,585 |
| For the year ended December 31, 2008                             | 1,413                         | 75                                  | 1,488 |
| For the year ended December 31, 2009                             | 1,279                         | 72                                  | 1,351 |
| For the year ended December 31, 2010                             | 1,069                         | 70                                  | 1,139 |

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

## 10) Deposits

The following table illustrates the amounts outstanding for deposits greater than \$100,000 at June 30, 2006, according to the time remaining to maturity. Included in the three month CD maturities are brokered CDs in the amount of \$169,971,000.

| (Dollars in thousands) | Certificates<br>of Deposit | Non-Maturity<br>Deposits | Totals    |
|------------------------|----------------------------|--------------------------|-----------|
| Within three months    | \$ 275,436                 | 1,003,255                | 1,278,691 |
| Three to six months    | 46,296                     |                          | 46,296    |
| Seven to twelve months | 51,650                     |                          | 51,650    |

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|                    |            |           |           |
|--------------------|------------|-----------|-----------|
| Over twelve months | 28,478     |           | 28,478    |
| Totals             | \$ 401,860 | 1,003,255 | 1,405,115 |



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## 11) Advances and Other Borrowings

The following chart illustrates the average balances and the maximum outstanding month-end balances for Federal Home Loan Bank of Seattle (FHLB) advances and repurchase agreements:

| (Dollars in thousands)               | As of and<br>for the six<br>months<br>ended<br>June 30,<br>2006 | As of and<br>for the<br>year ended<br>December 31,<br>2005 | As of and<br>for the six<br>months<br>ended<br>June 30,<br>2005 |
|--------------------------------------|---|--|---|
| FHLB Advances:                       |   |  |   |
| Amount outstanding at end of period  | \$ 435,978  | 402,191  | 804,047   |
| Average balance                      | \$ 485,746  | 673,904  | 741,002   |
| Maximum outstanding at any month-end | \$ 572,954  | 804,047  | 858,961   |
| Weighted average interest rate       | 3.82%   | 3.19%  | 3.00%   |
| Repurchase Agreements:               |   |  |   |
| Amount outstanding at end of period  | \$ 151,098  | 129,530  | 95,235  |
| Average balance                      | \$ 137,800  | 103,522  | 86,975  |
| Maximum outstanding at any month-end | \$ 151,098  | 132,534  | 95,235  |
| Weighted average interest rate       | 4.04%   | 2.85%  | 2.32%   |

## 12) 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 June 30, 2006.

| CONSOLIDATED<br>(Dollars in thousands)                               | Tier 1 (Core)<br>Capital | Tier 2<br>(Total)<br>Capital | Leverage<br>Capital |
|--|--------------------------|------------------------------|---------------------|
| GAAP Capital   | \$ 352,830               | 352,830                      | 352,830             |
| Less: Goodwill and intangibles                                       | (86,294)                 | (86,294)                     | (86,294)            |
| Other adjustments  | (540)                    | (540)                        | (540)               |
| Plus: Allowance for loan losses                                      |                          | 37,688                       |                     |
| Accumulated other comprehensive<br>Unrealized loss on AFS securities | 4,478                    | 4,478                        | 4,478               |
| Subordinated debentures  | 85,000                   | 85,000                       | 85,000              |
| Regulatory capital computed  | \$ 355,474               | 393,162                      | 355,474             |
| Risk weighted assets   | \$ 3,015,041             | 3,015,041                    |                     |
| Total average assets   |                          |                              | \$ 3,818,372        |
| Capital as % of defined assets                                       | 11.79%                   | 13.04%                       | 9.31%               |
| Regulatory well capitalized requirement                              | 6.00%                    | 10.00%                       | 5.00%               |

|  |       |       |       |
|--|-------|-------|-------|
| Excess over well capitalized requirement | 5.79% | 3.04% | 4.31% |
|--|-------|-------|-------|

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## 13) Other Comprehensive Income

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

| Dollars in thousands  | For the three months<br>ended June 30, |         | For the six months<br>ended June 30, |        |
|---|--|---------|--------------------------------------|--------|
|   | 2006                                   | 2005    | 2006                                 | 2005   |
| Net earnings  | \$ 14,666                              | 13,090  | 28,295                               | 24,610 |
| Unrealized holding (loss) gain arising during the period        | (7,606)                                | 10,653  | (8,744)                              | 1,123  |
| Tax benefit expense   | 2,997                                  | (4,198) | 3,445                                | (443)  |
| Net after tax   | (4,609)                                | 6,455   | (5,299)                              | 680    |
| Reclassification adjustment for losses included in net earnings |  | 107     |                                      | 137    |
| Tax benefit   |  | (42)    |                                      | (54)   |
| Net after tax   |  | 65      |                                      | 83     |
| Net unrealized (loss) gain on securities                        | (4,609)                                | 6,520   | (5,299)                              | 763    |
| Total other comprehensive income                                | \$ 10,057                              | 19,610  | 22,996                               | 25,373 |

## 14) Segment Information

The Company evaluates segment performance internally based on individual bank charters, and thus the operating segments are so defined. 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 the Parent, non-bank units, and eliminations of transactions between segments.

| (Dollars in thousands)           | Six months ended and as of June 30, 2006 |               |                |          |                    |         |
|----------------------------------|--|---------------|----------------|----------|--------------------|---------|
|                                  | Glacier                                  | Mountain West | First Security | Western  | 1st Bank           | Big Sky |
| Revenues from external customers | \$ 25,772                                | 33,783        | 25,133         | 14,056   | 8,871              | 10,162  |
| Intersegment revenues            | 200                                      | 15            | 96             | 19       | 354                | 92      |
| Expenses                         | (19,473)                                 | (27,590)      | (18,851)       | (11,150) | (7,499)            | (7,743) |
| Intercompany eliminations        |  |               |                |          |                    |         |
| Net Earnings                     | \$ 6,499                                 | 6,208         | 6,378          | 2,925    | 1,726              | 2,511   |
| Total Assets                     | \$ 744,359                               | 862,075       | 745,180        | 424,534  | 293,717            | 275,250 |
|                                  | Valley                                   | Whitefish     | Citizens       | Other    | Total Consolidated |         |
| Revenues from external customers | \$ 9,079                                 | 6,198         | 6,655          | 230      | 139,939            |         |

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|                           |            |         |         |          |           |
|---------------------------|------------|---------|---------|----------|-----------|
| Intersegment revenues     | 66         |         |         | 36,032   | 36,874    |
| Expenses                  | (7,070)    | (4,833) | (5,592) | (1,843)  | (111,644) |
| Intercompany eliminations |            |         |         | (36,874) | (36,874)  |
| Net Earnings              | \$ 2,075   | 1,365   | 1,063   | (2,455)  | 28,295    |
| Total Assets              | \$ 262,370 | 182,742 | 164,215 | (41,060) | 3,913,382 |

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## Six months ended and as of June 30, 2005

| (Dollars in thousands)           | Glacier    | Mountain West | First Security | Western | 1st Bank | Big Sky |
|----------------------------------|------------|---------------|----------------|---------|----------|---------|
| Revenues from external customers | \$ 21,204  | 25,570        | 18,572         | 12,973  | 4,779    | 8,617   |
| Intersegment revenues            | 430        |               | 13             |         | 81       |         |
| Expenses                         | (16,042)   | (20,110)      | (13,167)       | (9,956) | (3,811)  | (6,366) |
| Intercompany eliminations        |            |               |                |         |          |         |
| Net Earnings                     | \$ 5,592   | 5,460         | 5,418          | 3,017   | 1,049    | 2,251   |
| Total Assets                     | \$ 683,773 | 731,133       | 616,175        | 443,278 | 266,220  | 268,972 |

|                                  | Valley     | Whitefish | Citizens | Other    | Total Consolidated |
|----------------------------------|------------|-----------|----------|----------|--------------------|
| Revenues from external customers | \$ 7,899   | 5,593     | 2,687    | (221)    | 107,673            |
| Intersegment revenues            | 68         |           |          | 31,181   | 31,773             |
| Expenses                         | (5,973)    | (3,948)   | (2,106)  | (1,584)  | (83,063)           |
| Intercompany eliminations        |            |           |          | (31,773) | (31,773)           |
| Net Earnings                     | \$ 1,994   | 1,645     | 581      | (2,397)  | 24,610             |
| Total Assets                     | \$ 247,736 | 161,994   | 132,461  | (19,807) | 3,531,935          |

## Three months ended and as of June 30, 2006

| (Dollars in thousands)           | Glacier    | Mountain West | First Security | Western | 1st Bank | Big Sky |
|----------------------------------|------------|---------------|----------------|---------|----------|---------|
| Revenues from external customers | \$ 13,320  | 17,859        | 12,875         | 7,176   | 4,769    | 5,244   |
| Intersegment revenues            | 148        | 9             | 18             | 2       | 118      | 92      |
| Expenses                         | (10,189)   | (14,527)      | (9,684)        | (5,746) | (3,973)  | (4,024) |
| Intercompany eliminations        |            |               |                |         |          |         |
| Net Earnings                     | \$ 3,279   | 3,341         | 3,209          | 1,432   | 914      | 1,312   |
| Total Assets                     | \$ 744,359 | 862,075       | 745,180        | 424,534 | 293,717  | 275,250 |

|                                  | Valley   | Whitefish | Citizens | Other    | Total Consolidated |
|----------------------------------|----------|-----------|----------|----------|--------------------|
| Revenues from external customers | \$ 4,735 | 3,202     | 3,496    | 155      | 72,831             |
| Intersegment revenues            | 33       |           |          | 18,658   | 19,078             |
| Expenses                         | (3,699)  | (2,527)   | (2,981)  | (815)    | (58,165)           |
| Intercompany eliminations        |          |           |          | (19,078) | (19,078)           |

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|              |            |         |         |          |           |
|--------------|------------|---------|---------|----------|-----------|
| Net Earnings | \$ 1,069   | 675     | 515     | (1,080)  | 14,666    |
| Total Assets | \$ 262,370 | 182,742 | 164,215 | (41,060) | 3,913,382 |

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| (Dollars in thousands)           | Three months ended and as of June 30, 2005 |               |                |         |          |         |
|----------------------------------|--|---------------|----------------|---------|----------|---------|
|                                  | Glacier                                    | Mountain West | First Security | Western | 1st Bank | Big Sky |
| Revenues from external customers | \$ 10,869                                  | 13,402        | 9,497          | 6,602   | 3,635    | 4,528   |
| Intersegment revenues            | 285  |               | 8              |         | 81       |         |
| Expenses                         | (8,301)                                    | (10,538)      | (6,754)        | (5,085) | (2,928)  | (3,362) |
| Intercompany eliminations        |  |               |                |         |          |         |
| Net Earnings                     | \$ 2,853                                   | 2,864         | 2,751          | 1,517   | 788      | 1,166   |
| Total Assets                     | \$ 683,773                                 | 731,133       | 616,175        | 443,278 | 266,220  | 268,972 |

  

| (Dollars in thousands)           | Total Consolidated |           |          |          |                    |
|----------------------------------|--------------------|-----------|----------|----------|--------------------|
|                                  | Valley             | Whitefish | Citizens | Other    | Total Consolidated |
| Revenues from external customers | \$ 4,120           | 2,640     | 2,687    | 78       | 58,058             |
| Intersegment revenues            | 34                 |           |          | 16,339   | 16,747             |
| Expenses                         | (3,129)            | (1,949)   | (2,106)  | (816)    | (44,968)           |
| Intercompany eliminations        |                    |           |          | (16,747) | (16,747)           |
| Net Earnings                     | \$ 1,025           | 691       | 581      | (1,146)  | 13,090             |
| Total Assets                     | \$ 247,736         | 161,994   | 132,461  | (19,807) | 3,531,935          |

## 15) 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)          | Six Months Ended June 30,<br>2006 vs. 2005 |        |         |
|---------------------------------|--|--------|---------|
|                                 | Increase (Decrease) due to:                |        |         |
|                                 | Volume                                     | Rate   | Net     |
| <b>Interest Income</b>          |  |        |         |
| Residential real estate loans   | \$ 6,540                                   | 1,979  | 8,519   |
| Commercial loans                | 10,716                                     | 6,176  | 16,892  |
| Consumer and other loans        | 3,380                                      | 2,398  | 5,778   |
| Investment securities and other | (3,247)                                    | 891    | (2,356) |
| Total Interest Income           | 17,389                                     | 11,444 | 28,833  |
| <b>Interest Expense</b>         |  |        |         |

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|  |                  |                |               |
|--|------------------|----------------|---------------|
| NOW accounts                               | 80               | 751            | 831           |
| Savings accounts                           | 93               | 576            | 670           |
| Money market accounts                      | 379              | 3,350          | 3,729         |
| Certificates of deposit                    | 4,636            | 5,535          | 10,171        |
| FHLB advances                              | (3,794)          | 1,994          | (1,800)       |
| Other borrowings and repurchase agreements | 693              | 1,148          | 1,841         |
| Total Interest Expense                     | 2,087            | 13,354         | 15,442        |
| <b>Net Interest Income</b>                 | <b>\$ 15,302</b> | <b>(1,910)</b> | <b>13,391</b> |



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## 16) 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.

| <b>AVERAGE BALANCE SHEET</b><br>(Dollars in thousands) | For the Three months ended |                              |                           | For the Six months ended 6-30-06 |                              |                           |
|--|----------------------------|------------------------------|---------------------------|----------------------------------|------------------------------|---------------------------|
|  | Average<br>Balance         | Interest<br>and<br>Dividends | Average<br>Yield/<br>Rate | Average<br>Balance               | Interest<br>and<br>Dividends | Average<br>Yield/<br>Rate |
| <b>ASSETS</b>  |                            |                              |                           |                                  |                              |                           |
| Residential Real Estate Loans                          | \$ 671,013                 | 12,242                       | 7.30%                     | \$ 645,077                       | 23,231                       | 7.20%                     |
| Commercial Loans                                       | 1,459,494                  | 27,479                       | 7.55%                     | 1,428,464                        | 53,004                       | 7.48%                     |
| Consumer and Other Loans                               | 504,591                    | 9,654                        | 7.67%                     | 493,009                          | 18,519                       | 7.57%                     |
| Total Loans  | 2,635,098                  | 49,375                       | 7.52%                     | 2,566,550                        | 94,754                       | 7.44%                     |
| Tax -Exempt Investment Securities (1)                  | 282,941                    | 3,459                        | 4.89%                     | 283,325                          | 6,948                        | 4.90%                     |
| Other Investment Securities                            | 673,506                    | 7,099                        | 4.22%                     | 680,194                          | 14,183                       | 4.17%                     |
| Total Earning Assets                                   | 3,591,545                  | 59,933                       | 6.68%                     | 3,530,069                        | 115,885                      | 6.57%                     |
| Goodwill and Core Deposit Intangible                   | 86,521                     |                              |                           | 87,065                           |                              |                           |
| Other Non-Earning Assets                               | 193,026                    |                              |                           | 189,191                          |                              |                           |
| <b>TOTAL ASSETS</b>                                    | <b>\$ 3,871,092</b>        |                              |                           | <b>\$ 3,806,325</b>              |                              |                           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>             |                            |                              |                           |                                  |                              |                           |
| NOW Accounts   | \$ 389,133                 | 702                          | 0.72%                     | \$ 368,148                       | 1,172                        | 0.64%                     |
| Savings Accounts                                       | 232,209                    | 501                          | 0.86%                     | 239,031                          | 1,078                        | 0.91%                     |
| Money Market Accounts                                  | 544,161                    | 3,907                        | 2.88%                     | 519,732                          | 6,750                        | 2.62%                     |
| Certificates of Deposit                                | 882,475                    | 8,651                        | 3.93%                     | 856,079                          | 16,052                       | 3.78%                     |
| FHLB Advances  | 449,519                    | 4,417                        | 3.94%                     | 485,746                          | 9,213                        | 3.82%                     |
| Repurchase Agreements and Other Borrowed Funds         | 337,955                    | 4,129                        | 4.90%                     | 316,285                          | 7,686                        | 4.90%                     |
| Total Interest Bearing Liabilities                     | 2,835,452                  | 22,307                       | 3.16%                     | 2,785,021                        | 41,951                       | 3.04%                     |
| Non-interest Bearing Deposits                          | 653,834                    |                              |                           | 642,227                          |                              |                           |
| Other Liabilities                                      | 31,928                     |                              |                           | 33,573                           |                              |                           |
| Total Liabilities                                      | 3,521,214                  |                              |                           | 3,460,821                        |                              |                           |
| Common Stock   | 324                        |                              |                           | 323                              |                              |                           |

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|   |                     |                     |
|---|---------------------|---------------------|
| Paid-In Capital                                       | 267,148             | 265,354             |
| Retained Earnings                                     | 83,848              | 79,716              |
| Accumulated Other<br>Comprehensive Income             | (1,442)             | 111                 |
| Total Stockholders' Equity                            | 349,878             | 345,504             |
| <b>TOTAL LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b> | <b>\$ 3,871,092</b> | <b>\$ 3,806,325</b> |

|  |           |           |
|--|-----------|-----------|
| Net Interest Income                              | \$ 37,626 | \$ 73,934 |
| Net Interest Spread                              | 3.52%     | 3.53%     |
| Net Interest Margin on Average<br>Earning assets | 4.20%     | 4.22%     |
| Return on Average Assets (annualized)            | 1.52%     | 1.50%     |
| Return on Average Equity (annualized)            | 16.81%    | 16.51%    |

(1) Excludes tax  
effect on non-taxable  
investment security  
income

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Impact of Recently Issued Accounting Standards**

The Company adopted SFAS No. 123 (Revised) *Share-Based Payment*, as of January 1, 2006 and, accordingly, has determined compensation cost based on the fair value of the option at the grant date. Net earnings was reduced as a result of the adoption of SFAS 123(R) *Share-based Payment* beginning January 1, 2006, which requires recording the estimated fair value of stock options as compensation expense. For additional information regarding the standard see Note 6 to the Consolidated Financial Statements. The following table illustrates the affect of the adoption of SFAS 123(R) if it would not have been adopted in 2006.

| <b>Impact of SFAS 123 (R)</b><br>(Unaudited \$ in thousands, except per share data) | Three months<br>ended June 30, |        | Six months<br>ended June 30, |        |
|---|--------------------------------|--------|------------------------------|--------|
|   | 2006                           | 2005   | 2006                         | 2005   |
| Net earnings  | \$ 14,666                      | 13,090 | 28,295                       | 24,610 |
| Stock option compensation cost  | 661                            |        | 1,184                        |        |
| Pro forma net operating earnings  | \$ 15,327                      | 13,090 | 29,479                       | 24,610 |
| Diluted earnings per share  | \$ 0.45                        | 0.41   | 0.86                         | 0.78   |
| Stock option compensation cost  | 0.02                           |        | 0.04                         |        |
| Pro forma net operating earnings  | \$ 0.47                        | 0.41   | 0.90                         | 0.78   |

**Pending Acquisitions**

On April 21, 2006, Glacier announced the signing of a definitive agreement to acquire Citizens Development Company in a transaction valued at approximately \$77 million. Citizens is a Billings, Montana-based bank holding company that owns five community banks located throughout Montana, with principal banking offices in Billings, Lewiston, Hamilton, Columbia Falls and Chinook. At June 30, 2006, Citizens had total assets of \$412 million, net loans of \$308 million, total deposits of \$349 million, and stockholders' equity of \$38 million. The acquisition of the Citizens banks will strengthen the Company's presence in three of Montana's strongest markets: Billings, the Flathead Valley, and the Bitterroot Valley, while expanding its operations in central Montana.

On May 31, 2006, Glacier announced the signing of a definitive agreement to acquire First National Bank of Morgan in a transaction valued at approximately \$20 million. First National Bank of Morgan is a national banking association with its main office in Morgan, Utah and one branch office in Mountain Green, Utah. At June 30, 2006, First National Bank of Morgan had total assets of \$75 million, net loans of \$42 million, total deposits of \$66 million, and stockholders' equity of \$9 million. The acquisition of First National Bank of Morgan will be the Company's first whole-bank acquisition in Utah, expanding Glacier's focused community bank strategy in Utah and complementing its two existing Utah branches.

The two pending acquisitions, which are subject to bank regulatory approval, are both presently expected to close in the later part of August, 2006. The transactions are expected to be immediately accretive to Glacier's earnings per share. To fund the Citizens acquisition, the Company sold 900,000 shares of its common stock, to settle on August 9, 2006, at \$30.50 per share, less underwriter discount, a firm underwritten offering conducted by D.A. Davidson & Co. D.A. Davidson has been granted a 30-day option to purchase up to an additional 100,000 shares at the offering price to cover related over-allotments, if any. For additional acquisition funding, the Company expects to issue \$30,000,000 in subordinated debentures with a cumulative fixed interest rate of 7.235% for the first five years and then converts to a three month LIBOR plus 1.57% rate. The Company expects to issue the subordinated debentures prior to August 22, 2006.

**Table of Contents****Financial Condition**

This section discusses the changes in the Statement of Financial Condition items from June 30, 2005 and December 31, 2005, to June 30, 2006.

|  | June 30,     | December  | June 30,    | \$ change | \$ change |
|--|--------------|-----------|-------------|-----------|-----------|
|  | 2006         | 31,       | 2005        | from      | from      |
| <b>Assets (\$ in thousands)</b>  | (unaudited)  | 2005      | (unaudited) | December  | June 30,  |
|  |              | (audited) |             | 31,       | 2005      |
|  |              |           |             | 2005      | 2005      |
| Cash on hand and in banks  | \$ 124,872   | 111,418   | 109,402     | 13,454    | 15,470    |
| Investment securities, interest bearing deposits, FHLB stock, FRB stock, and fed funds | 908,899      | 991,246   | 1,114,334   | (82,347)  | (205,435) |
| Loans:   |              |           |             |           |           |
| Real estate  | 697,351      | 607,627   | 505,296     | 89,724    | 192,055   |
| Commercial   | 1,486,847    | 1,357,051 | 1,215,919   | 129,796   | 270,928   |
| Consumer and other   | 517,847      | 471,164   | 433,900     | 46,683    | 83,947    |
| Total loans  | 2,702,045    | 2,435,842 | 2,155,115   | 266,203   | 546,930   |
| Allowance for loan losses  | (41,195)     | (38,655)  | (32,917)    | (2,540)   | (8,278)   |
| Total loans net of allowance for loan losses   | 2,660,850    | 2,397,187 | 2,122,198   | 263,663   | 538,652   |
| Other assets   | 218,761      | 206,493   | 186,001     | 12,268    | 32,760    |
| Total Assets   | \$ 3,913,382 | 3,706,344 | 3,531,935   | 207,038   | 381,447   |

At June 30, 2006 total assets were \$3.913 billion, which is \$207 million, or 6 percent, greater than the December 31, 2005 assets of \$3.706 billion, and \$381 million, or 11 percent, greater than the June 30, 2005 assets of \$3.532 billion. Total loans have increased \$266 million from December 31, 2005, or 11 percent, with the growth occurring in all loan categories. Commercial loans have increased \$130 million, or 10 percent, real estate loans gained \$90 million, or 15 percent, and consumer loans grew by \$47 million, or 10 percent. Total loans increased \$547 million, or 25 percent, with internal loan growth of \$435 million from June 30, 2005, with all loan categories showing increases. Including loans acquired, commercial loans increased the most, \$271 million, or 22 percent, followed by real estate loans which increased \$192 million, or 38 percent, which was the largest percentage gain, and consumer loans, which are primarily comprised of home equity loans, increasing by \$84 million, or 19 percent.

Investment securities, including interest bearing deposits in other financial institutions, and federal funds sold have decreased \$82 million from December 31, 2005, or 8 percent, and have declined \$205 million, or 18 percent, from June 30, 2005. Investment securities at June 30, 2006 represented 23% of total assets versus 32% the prior year, which is a result of the continued use of investment cash flow to fund loan growth.

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|   | June 30,            | December         | June 30,         | \$ change      | \$ change      |
|---|---------------------|------------------|------------------|----------------|----------------|
|   | 2006                | 31,              | 2005             | from           | from           |
| <b>Liabilities (\$ in thousands)</b>                                    | (unaudited)         | 2005             | (unaudited)      | December       | June 30,       |
|   |                     | (audited)        |                  | 31,            | 2005           |
|   |                     |                  |                  | 2005           |                |
| Non-interest bearing deposits   | \$ 720,473          | 667,008          | 630,983          | 53,465         | 89,490         |
| Interest bearing deposits   | 1,972,296           | 1,867,704        | 1,576,872        | 104,592        | 395,424        |
| Advances from Federal Home Loan Bank                                    | 435,978             | 402,191          | 804,047          | 33,787         | (368,069)      |
| Securities sold under agreements to repurchase and other borrowed funds | 313,394             | 317,222          | 100,811          | (3,828)        | 212,583        |
| Other liabilities   | 33,411              | 33,980           | 36,463           | (569)          | (3,052)        |
| Subordinated debentures   | 85,000              | 85,000           | 85,000           |                |                |
| <b>Total liabilities</b>  | <b>\$ 3,560,552</b> | <b>3,373,105</b> | <b>3,234,176</b> | <b>187,447</b> | <b>326,376</b> |

Non-interest bearing deposits have increased \$53 million, or 8 percent, since December 31, 2005, and by \$89 million, or 14 percent, since June 30, 2005. This low cost of funding continues to be a primary focus of each of our banks. Interest bearing deposits have increased \$105 million from December 31, 2005, of which \$22 million was in Internet generated National Market CD's. Since June 30, 2005 interest bearing deposits have increased \$395 million, or 25 percent, with \$166 million of that amount from broker and Internet sources. Federal Home Loan Bank (FHLB) advances increased \$34 million, and repurchase agreements and other borrowed funds decreased \$4 million from December 31, 2005. FHLB advances are \$368 million less than the June 30, 2005 balances due primarily to the above described increases in deposits and other funding sources including \$158 million in U.S. Treasury Tax and Loan Term Auction funds.

**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 is the 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. 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. As of June 30, 2006, the Company had \$874 million of available FHLB borrowing line of which \$436 million was utilized. Accordingly, management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each individual institution as well as the Company as a whole.

**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.

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|  | June 30,    | December  | June 30,    | \$ change | \$ change |
|--|-------------|-----------|-------------|-----------|-----------|
|  | 2006        | 31,       | 2005        | from      | from      |
| <b>Stockholders equity</b>                     |             | 31,       | 2005        | December  | June 30,  |
| <b>(\$ in thousands except per share data)</b> | (unaudited) | (audited) | (unaudited) | 2005      | 2005      |
| Common equity                                  | \$ 357,308  | 332,418   | 291,062     | 24,890    | 66,246    |
| Accumulated other comprehensive (loss) income  | (4,478)     | 821       | 6,697       | (5,299)   | (11,175)  |
| Total stockholders equity                      | 352,830     | 333,239   | 297,759     | 19,591    | 55,071    |
| Core deposit intangible, net, and goodwill     | (86,294)    | (87,114)  | (80,286)    | 820       | (6,008)   |
|  | \$ 266,536  | 246,125   | 217,473     | 20,411    | 49,063    |

|   |          |       |       |        |      |
|---|----------|-------|-------|--------|------|
| Stockholders equity to total assets                   | 9.02%    | 8.99% | 8.43% |        |      |
| Tangible stockholders equity to total tangible assets | 6.96%    | 6.80% | 6.30% |        |      |
| Book value per common share                           | \$ 10.88 | 10.36 | 9.53  | 0.52   | 1.35 |
| Market price per share at end of quarter              | \$ 29.27 | 30.05 | 26.13 | (0.78) | 3.14 |

Total equity and book value per share amounts have increased \$19.591 million and \$.52 per share, respectively, from December 31, 2005, the result of earnings retention and stock options exercised that outpaced the reduction in other comprehensive income. Accumulated other comprehensive income, representing net unrealized gains (losses) on securities available for sale, decreased \$11.175 million from June 30, 2005 and \$5.299 million from year end, primarily a function of interest rate changes.

|   | June 30,    | December  | June 30,    |
|---|-------------|-----------|-------------|
|   | 2006        | 31,       | 2005        |
| <b>Credit quality information (\$ in thousands)</b>   | (unaudited) | (audited) | (unaudited) |
| Allowance for loan losses                             | \$41,195    | \$38,655  | 32,917      |
| Non-performing assets                                 | \$ 8,943    | 10,089    | 8,093       |
| Allowance as a percentage of non performing assets    | 461%        | 383%      | 407%        |
| Non-performing assets as a percentage of total assets | 0.23%       | 0.26%     | 0.23%       |
| Allowance as a percentage of total loans              | 1.52%       | 1.59%     | 1.53%       |
| Net recoveries (charge-offs) as a percentage of loans | 0.00%       | (0.02%)   | (0.02%)     |

**Allowance for Loan Loss and Non-Performing Assets**

Non-performing assets as a percentage of total assets at June 30, 2006 were at .23 percent, the same percentage as at June 30, 2005, but decreasing slightly from .26 percent at December 31, 2005. The Company's ratios compare favorably to the Federal Reserve Bank Peer Group average of .41 percent at March 31, 2006, the most recent information available. The allowance for loan losses was 461 percent of non-performing assets at June 30, 2006, up from 407 percent a year ago. The allowance, including \$2.792 million from acquisitions, has increased \$8.278 million, or 25 percent, from a year ago. The allowance of \$41.195 million, is 1.52 percent of June 30, 2006 total loans

outstanding, down slightly from the 1.53 percent a year ago. The second quarter provision for loan losses expense was \$1.355 million, a decrease of \$197 thousand from the same quarter in 2005. Net charge offs remain low at \$11 thousand for the second quarter of 2006. Loan growth, average loan size, and credit quality considerations will determine the level of additional provision expense.

**Table of Contents****Results of Operations    The three months ended June 30, 2006 compared to the three months ended June 30, 2005.**

The company reported net quarterly earnings of \$14.666 million, an increase of \$1.6 million, or 12 percent, over the \$13.090 million for the second quarter of 2005. Net quarterly earnings were reduced by \$661,000, or \$0.02 per share, due to the January 1, 2006 adoption of SFAS 123(R) *Share-based Payment* which requires recording the estimated fair value of stock options as compensation expense. Diluted earnings per share for the quarter of \$0.45 is an increase of 10 percent over the per share earnings of \$0.41 for the same quarter of 2005. Excluding the affects of SFAS 123(R), diluted earnings per share would have been \$0.47, or an increase of 15 percent over the prior year quarter. Annualized return on average assets and return on average equity for the quarter were 1.52 percent and 16.81 percent, respectively, which compares with prior year returns for the second quarter of 1.52 percent and 18.03 percent.

**Revenue summary**

| (Unaudited    \$ in thousands)             | Three months ended June 30, |           |           |          |
|--|-----------------------------|-----------|-----------|----------|
|  | 2006                        | 2005      | \$ change | % change |
| Net interest income                        | \$ 37,626                   | \$ 32,087 | \$ 5,539  | 17%      |
| Non-interest income                        |                             |           |           |          |
| Service charges, loan fees, and other fees | 9,349                       | 7,850     | 1,499     | 19%      |
| Gain on sale of loans                      | 2,770                       | 2,884     | (114)     | -4%      |
| Loss on sale of investments                |                             | (107)     | 107       | -100%    |
| Other income                               | 779                         | 886       | (107)     | -12%     |
| Total non-interest income                  | 12,898                      | 11,513    | 1,385     | 12%      |
|  | \$ 50,524                   | \$ 43,600 | \$ 6,924  | 16%      |
| Tax equivalent net interest margin         | 4.34%                       | 4.14%     |           |          |

**Net Interest Income**

Net interest income for the quarter increased \$5.539 million, or 17 percent, over the same period in 2005, and \$1.318 million from the first quarter of 2006. Total interest income increased \$13.388 million from the prior year's quarter, or 29 percent, while total interest expense is \$7.849 million, or increased 54 percent. The increase in interest expense is primarily attributable to the volume increase in interest bearing deposits, and increases in short term interest rates during 2005 continuing into 2006. The Federal Reserve Bank has increased the targeted fed funds rate 12 times, 300 basis points, since January 1, 2005. The tax equivalent net interest margin calculation has been changed to an actual 365 day base from a 360 day base. Previously reported net interest margins have been adjusted to reflect the change. The net interest margin as a percentage of earning assets for the quarter, on a tax equivalent basis, was 4.34 percent which was higher than the restated 4.14 percent result for the second quarter of 2005. The margin for the second quarter of 2006 decreased slightly from the first quarter of 2006 restated margin of 4.38 percent (4.32 originally reported), primarily a result of the continued increase in funding costs.

**Non-interest Income**

Fee income increased \$1.499 million, or 19 percent, over the same period last year, driven primarily by an increased number of loan and deposit accounts from internal growth and acquisitions. Gain on sale of loans decreased \$114 thousand, or 4 percent, from the second quarter of last year. Loan origination volume in our markets for housing construction continues to remain very active by historical standards and the recent decline was expected with the slow down from unprecedented activity last year and as interest rates continues to rise.



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| <b>Non-interest expense summary</b>   | Three months ended June 30, |                  |                 | %          |
|---------------------------------------|-----------------------------|------------------|-----------------|------------|
|                                       | 2006                        | 2005             | \$ change       |            |
| <b>(Unaudited \$ in thousands)</b>    |                             |                  |                 |            |
| Compensation and employee benefits    | \$ 15,739                   | \$ 12,474        | \$ 3,265        | 26%        |
| Occupancy and equipment expense       | 3,431                       | 3,152            | 279             | 9%         |
| Outsourced data processing            | 678                         | 423              | 255             | 60%        |
| Core deposit intangibles amortization | 400                         | 384              | 16              | 4%         |
| Other expenses                        | 6,702                       | 6,043            | 659             | 11%        |
| <b>Total non-interest expense</b>     | <b>\$ 26,950</b>            | <b>\$ 22,476</b> | <b>\$ 4,474</b> | <b>20%</b> |

**Non-interest Expense**

Non-interest expense increased by \$4.474 million, or 20 percent, from the same quarter of 2005. Compensation and benefit expense increased \$3.265 million, or 26 percent, of which \$961 thousand was from expensing stock options with the adoption of SFAS 123(R) in 2006. The remaining increase in compensation and benefit expense was primarily attributed to four acquisitions during 2005 and normal compensation increases for job performance and increased cost for benefits. The number of full-time-equivalent employees has increased from 1,057 to 1,171, an 11 percent increase, since June 30, 2005. Occupancy and equipment expense increased \$279 thousand, or 9 percent, reflecting the bank acquisitions, cost of additional branch locations and facility upgrades. Other expenses increased \$659 thousand, or 11 percent, primarily from acquisitions, additional marketing expenses, and costs associated with new branch offices. The efficiency ratio (non-interest expense/net interest income + non-interest income) was 53 percent for the 2006 quarter, up from 52 percent for the 2005 quarter.

**Operating Results for Six Months Ended June 30, 2006 Compared to June 30, 2005**

Net earnings for the six months ended June 30, 2006 were \$28.295 million, which is an increase of \$3.685 million, or 15 percent over the prior year. Diluted earnings per share of \$0.86 is an increase of 10 percent over the \$0.78 earned in the first six months of 2005. Excluding SFAS 123(R) compensation costs of \$1.184 million, diluted earnings per share increased 15 percent for the first six months of 2006. The 2006 six month annualized return on average assets and return on average equity was 1.50 percent and 16.51 percent, respectively, which compares with prior year six month returns of 1.51 percent and 17.56 percent.

| <b>Revenue summary</b>                     | Six months ended June 30, |                  |                  | %          |
|--|---------------------------|------------------|------------------|------------|
|  | 2006                      | 2005             | \$ change        |            |
| <b>(Unaudited \$ in thousands)</b>         |                           |                  |                  |            |
| Net interest income                        | \$ 73,934                 | \$ 60,543        | \$ 13,391        | 22%        |
| Non-interest income                        |                           |                  |                  |            |
| Service charges, loan fees, and other fees | 17,566                    | 14,332           | 3,234            | 23%        |
| Gain on sale of loans                      | 4,960                     | 4,976            | (16)             | 0%         |
| Loss on sale of investments                |                           | (137)            | 137              | -100%      |
| Other income                               | 1,528                     | 1,450            | 78               | 5%         |
| <b>Total non-interest income</b>           | <b>24,054</b>             | <b>20,621</b>    | <b>3,433</b>     | <b>17%</b> |
|  | <b>\$ 97,988</b>          | <b>\$ 81,164</b> | <b>\$ 16,824</b> | <b>21%</b> |
| Tax equivalent net interest margin         | 4.36%                     | 4.14%            |                  |            |

**Net Interest Income**

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Net interest income for the six months increased \$13.391 million, or 22 percent, over the same period in 2005. Total interest income increased \$28.833 million, or 33 percent, while total interest expense was \$15.442 million, or 58 percent higher. The increase in interest expense is primarily attributable to the volume increase in interest bearing deposits, and increases in short term interest rates during 2005 and continuing in

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2006. The tax equivalent net interest margin calculation has been changed to an actual 365 day base from a 360 day base. Previously reported net interest margins have been adjusted to reflect the change. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.36 percent which was 22 basis points higher than the restated 4.14 percent result for 2005.

**Non-interest Income**

Total non-interest income increased \$3.433 million, or 17 percent in 2006. Fee income increased \$3.234 million, or 23 percent, over last year, driven primarily by an increased number of loan and deposit accounts, acquisitions, and additional customer product and services offered. Gain on sale of loans decreased \$16 thousand, or less than 1 percent, from the first six months of last year. Loan origination volume in our markets for housing construction continues to remain very active by historical standards and the recent decline was expected with the slow down from unprecedented activity last year and as interest rates continue to rise.

**Non-interest expense summary**

| (Unaudited \$ in thousands)           | Six months ended June 30, |           |           | %    |
|---------------------------------------|---------------------------|-----------|-----------|------|
|                                       | 2006                      | 2005      | \$ change |      |
| Compensation and employee benefits    | \$ 31,050                 | \$ 23,418 | \$ 7,632  | 33%  |
| Occupancy and equipment expense       | 6,922                     | 6,007     | 915       | 15%  |
| Outsourced data processing            | 1,402                     | 655       | 747       | 114% |
| Core deposit intangibles amortization | 820                       | 667       | 153       | 23%  |
| Other expenses                        | 12,583                    | 10,803    | 1,780     | 16%  |
| Total non-interest expense            | \$ 52,777                 | \$ 41,550 | \$ 11,227 | 27%  |

**Non-interest Expense**

Non-interest expense increased by \$11.227 million, or 27 percent, from the same six months of 2005. Compensation and benefit expense increased \$7.632 million, or 33 percent, of which \$1.684 million was from expensing stock options with the adoption of SFAS 123(R) in 2006. The remaining increase in compensation and benefit expense was primarily attributed to four acquisitions during 2005, the addition of four new bank branches in 2006, and normal compensation increases for job performance and increased cost for benefits. Occupancy and equipment expense increased \$915 thousand, or 15 percent, reflecting the acquisitions, cost of additional locations and facility upgrades. Other expenses increased \$1.780 million, or 16 percent, primarily from acquisitions, additional marketing expenses, and costs associated with new branch offices. The efficiency ratio (non-interest expense/net interest income + non-interest income) increased to 54 percent from 51 percent for the first six months of 2005 largely a result of the recent acquisitions and branch openings.

**Critical Accounting Policies**

Companies apply certain critical accounting policies requiring management to make subjective or complex judgments, often as a result of the need to estimate the effect of matters that are inherently uncertain. The Company considers its only critical accounting policy to be the allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged against earnings. The balance of allowance for loan loss is maintained at the amount management believes will be adequate to absorb known and inherent losses in the loan portfolio. The appropriate balance of allowance for loan losses is determined by applying estimated loss factors to the credit exposure from outstanding loans. Estimated loss factors are based on subjective measurements including management's assessment of the internal risk classifications, changes in the nature of the loan portfolio, industry concentrations and the impact of current local, regional and national economic factors on the quality of the loan portfolio. Changes in these estimates and assumptions are reasonably possible and may have a material impact on the Company's consolidated financial statements, results of operations and liquidity.

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### **Effect of inflation and changing prices**

Generally accepted accounting principles 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 a financial institution 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, 2005.

### **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 we file or submit 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 second quarter 2006, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal controls 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.

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**Item 1A. Risk Factors**

There have not been any material changes to the Company's risk factors during the second quarter 2006.

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

(a) Not Applicable

(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) The Company's Annual Shareholders' Meeting was held April 26, 2006

(b) Not Applicable

(c) A brief description of each matter voted upon at the Annual Meeting and the number of votes cast for, against, or withheld, including a separate tabulation with respect to each nominee to serve on the Board is presented below:

(1) Election of Director for a three-year term expiring in 2008 and until his successor has been elected or qualified.

John W. Murdoch -

Votes Cast For: 27,327,205

Votes Cast Withheld: 523,111

(2) Election of Directors for three-year terms expiring in 2009 and until their successors have been elected or qualified.

Craig A. Langel

Votes Cast For: 27,361,135

Votes Cast Withheld: 489,182

L. Peter Larson

Votes Cast For: 27,305,618

Votes Cast Withheld: 544,698

Everit A. Sliter

Votes Cast For: 27,064,675

Votes Cast Withheld: 785,641

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(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

**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.**

August 7, 2006

/s/ Michael J. Blodnick

Michael J. Blodnick  
President/CEO

August 7, 2006

/s/ James H. Strosahl

James H. Strosahl  
Executive Vice President/CFO