GLACIER BANCORP INC
Form 10-Q
August 06, 2010

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

þ **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended June 30, 2010**

o **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. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| Large Accelerated Filer þ | Accelerated Filer o | Non-Accelerated Filer o | Smaller reporting Company o |
|---|---|---|---|

(Do not check if a smaller reporting company)
Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

The number of shares of Registrant s common stock outstanding on July 19, 2010 was 71,915,073. No preferred shares are issued or outstanding.

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

| (Dollars in thousands, except per share data) | June 30, 2010 | December 31, 2009 | June 30, 2009 |
|---|---|---|---|
| **Assets** | | | |
| Cash on hand and in banks | $ 95,603 | 120,731 | 100,773 |
| Federal funds sold | 71,605 | 87,155 | 62,405 |
| Interest bearing cash deposits | 1,260 | 2,689 | 24,608 |
| Cash and cash equivalents | 168,468 | 210,575 | 187,786 |
| Investment securities, available-for-sale | 1,743,268 | 1,506,394 | 994,147 |
| Loans held for sale | 73,207 | 66,330 | 92,166 |
| Loans receivable, gross | 3,958,962 | 4,063,915 | 4,036,593 |
| Allowance for loan and lease losses | (141,665) | (142,927) | (97,374) |
| Loans receivable, net | 3,890,504 | 3,987,318 | 4,031,385 |
| Premises and equipment, net | 144,361 | 140,921 | 135,902 |
| Other real estate owned | 64,419 | 57,320 | 47,424 |
| Accrued interest receivable | 29,973 | 29,729 | 30,346 |
| Deferred tax asset | 35,361 | 41,082 | 14,890 |
| Core deposit intangible, net | 12,316 | 13,937 | 11,477 |
| Goodwill | 146,259 | 146,259 | 146,259 |
| Other assets | 59,907 | 58,260 | 38,808 |
| Total assets | $ 6,294,836 | 6,191,795 | 5,638,424 |
| **Liabilities** | | | |
| Non-interest bearing deposits | $ 852,121 | 810,550 | 754,844 |
| Interest bearing deposits | 3,657,995 | 3,289,602 | 2,631,599 |
| Federal Home Loan Bank advances | 529,982 | 790,367 | 613,478 |
| Securities sold under agreements to repurchase | 224,397 | 212,506 | 180,779 |
| Federal Reserve Bank discount window | | 225,000 | 587,000 |
| Other borrowed funds | 10,063 | 13,745 | 17,192 |
| Accrued interest payable | 8,300 | 7,928 | 8,421 |
| Subordinated debentures | 125,060 | 124,988 | 120,157 |
| Other liabilities | 41,170 | 31,219 | 35,290 |
| Total liabilities | 5,449,088 | 5,505,905 | 4,948,760 |
| **Stockholders Equity** | | | |
| Preferred shares, $0.01 par value per share, 1,000,000 shares authorized, none issued or outstanding | | | |

| | | | |
|---|---|---|---|
| Common stock, $0.01 par value per share, 117,187,500 shares authorized | 719 | 616 | 615 |
| Paid-in capital | 643,512 | 497,493 | 495,223 |
| Retained earnings substantially restricted | 192,724 | 188,129 | 196,208 |
| Accumulated other comprehensive income (loss) | 8,793 | (348) | (2,382) |
| Total stockholders equity | 845,748 | 685,890 | 689,664 |
| Total liabilities and stockholders equity | $ 6,294,836 | 6,191,795 | 5,638,424 |
| Number of shares outstanding | 71,915,073 | 61,619,803 | 61,519,808 |
| Book value per share | $ 11.76 | 11.13 | 11.21 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| (Dollars in thousands, except per share data) | Three Months ended June 30, 2010 | 2009 | Six Months ended June 30, 2010 | 2009 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Residential real estate loans | $ 11,421 | 13,871 | 23,254 | 28,212 |
| Commercial loans | 37,003 | 37,597 | 73,675 | 75,563 |
| Consumer and other loans | 10,720 | 11,142 | 21,360 | 22,481 |
| Investment securities and other | 14,674 | 11,810 | 28,927 | 23,696 |
| Total interest income | 73,818 | 74,420 | 147,216 | 149,952 |
| **Interest Expense** | | | | |
| Deposits | 9,222 | 9,433 | 18,553 | 19,567 |
| Federal Home Loan Bank advances | 2,454 | 1,852 | 4,765 | 3,671 |
| Securities sold under agreements to repurchase | 399 | 409 | 815 | 1,003 |
| Subordinated debentures | 1,648 | 1,676 | 3,284 | 3,583 |
| Other borrowed funds | 26 | 569 | 216 | 1,269 |
| Total interest expense | 13,749 | 13,939 | 27,633 | 29,093 |
| **Net Interest Income** | 60,069 | 60,481 | 119,583 | 120,859 |
| Provision for loan losses | 17,246 | 25,140 | 38,156 | 40,855 |
| Net interest income after provision for loan losses | 42,823 | 35,341 | 81,427 | 80,004 |
| **Non-Interest Income** | | | | |
| Service charges and other fees | 10,641 | 10,215 | 20,161 | 19,234 |
| Miscellaneous loan fees and charges | 1,259 | 1,162 | 2,385 | 2,322 |
| Gain on sale of loans | 6,133 | 9,071 | 10,024 | 15,221 |
| Gain on sale of investments | 242 | | 556 | |
| Other income | 3,143 | 870 | 4,475 | 1,918 |
| Total non-interest income | 21,418 | 21,318 | 37,601 | 38,695 |
| **Non-Interest Expense** | | | | |
| Compensation, employee benefits and related expense | 21,652 | 20,710 | 43,008 | 42,654 |
| Occupancy and equipment expense | 5,988 | 5,611 | 11,936 | 11,506 |
| Advertising and promotions | 1,644 | 1,722 | 3,236 | 3,446 |
| Outsourced data processing expense | 761 | 680 | 1,455 | 1,351 |
| Core deposit intangibles amortization | 801 | 762 | 1,621 | 1,536 |
| Other real estate owned expense | 7,373 | 2,321 | 9,691 | 2,841 |

| | | | | | |
|---|---|---|---|---|---|
| Federal Deposit Insurance Corporation premiums | | 2,165 | 3,832 | 4,365 | 5,000 |
| Other expense | | 7,852 | 7,325 | 14,885 | 14,255 |
| Total non-interest expense | | 48,236 | 42,963 | 90,197 | 82,589 |
| **Earnings Before Income Taxes** | | 16,005 | 13,696 | 28,831 | 36,110 |
| Federal and state income tax expense | | 2,783 | 3,044 | 5,539 | 9,679 |
| **Net Earnings** | $ | 13,222 | 10,652 | 23,292 | 26,431 |
| Basic earnings per share | $ | 0.19 | 0.17 | 0.35 | 0.43 |
| Diluted earnings per share | $ | 0.19 | 0.17 | 0.35 | 0.43 |
| Dividends declared per share | $ | 0.13 | 0.13 | 0.26 | 0.26 |
| Return on average assets (annualized) | | 0.85% | 0.77% | 0.76% | 0.96% |
| Return on average equity (annualized) | | 6.25% | 6.18% | 6.02% | 7.72% |
| Average outstanding shares basic | | 71,913,102 | 61,515,946 | 67,363,476 | 61,489,422 |
| Average outstanding shares diluted | | 71,914,894 | 61,518,289 | 67,364,377 | 61,493,266 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**Glacier Bancorp, Inc.**
**Unaudited Condensed Consolidated Statements of Stockholders Equity and Comprehensive Income**
**Year ended December 31, 2009 and Six Months ended June 30, 2010**

| (Dollars in thousands, except per share data) | Common Stock Shares | Common Stock Amount | Paid-in Capital | Retained Earnings Substantially Restricted | Accumulated Other Comprehensive (Loss) Income | Total Stockholders Equity |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2008** | 61,331,273 | $ 613 | 491,794 | 185,776 | (1,243) | 676,940 |
| Comprehensive income: | | | | | | |
| Net earnings | | | | 34,374 | | 34,374 |
| Unrealized gain on securities, net of reclassification adjustment and taxes | | | | | 895 | 895 |
| Total comprehensive income | | | | | | 35,269 |
| Cash dividends declared ($0.52 per share) | | | | (32,021) | | (32,021) |
| Stock options exercised | 188,535 | 2 | 2,552 | | | 2,554 |
| Stock issued in connection with acquisition | 99,995 | 1 | 1,419 | | | 1,420 |
| Stock based compensation and tax benefit | | | 1,728 | | | 1,728 |
| **Balance at December 31, 2009** | 61,619,803 | $ 616 | 497,493 | 188,129 | (348) | 685,890 |
| Comprehensive income: | | | | | | |
| Net earnings | | | | 23,292 | | 23,292 |
| Unrealized gain on securities, net of reclassification adjustment and taxes | | | | | 9,141 | 9,141 |
| Total comprehensive income | | | | | | 32,433 |
| Cash dividends declared ($0.26 per share) | | | | (18,697) | | (18,697) |
| Public offering of stock issued | 10,291,465 | 103 | 145,493 | | | 145,596 |
| Stock options exercised | 3,805 | | 58 | | | 58 |
| Stock based compensation and tax benefit | | | 468 | | | 468 |
| **Balance at June 30, 2010** | 71,915,073 | $ 719 | 643,512 | 192,724 | 8,793 | 845,748 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| (Dollars in thousands) | Six Months ended June 30 2010 | 2009 |
|---|---|---|
| **Operating Activities** | | |
| Net cash provided by operating activities | $ 96,450 | 25,726 |
| **Investing Activities** | | |
| Proceeds from sales, maturities and prepayments of investments available-for-sale | 244,484 | 97,332 |
| Purchases of investments available-for-sale | (469,030) | (103,724) |
| Principal collected on commercial and consumer loans | 335,866 | 483,879 |
| Commercial and consumer loans originated or acquired | (349,027) | (529,042) |
| Principal collections on real estate loans | 92,035 | 97,507 |
| Real estate loans originated or acquired | (67,688) | (76,282) |
| Net purchase of FHLB and FRB stock | (1,729) | (61) |
| Proceeds from sale of other real estate owned | 25,722 | 5,257 |
| Net addition of premises and equipment and other real estate owned | (9,003) | (7,854) |
| Net cash used in investment activities | (198,370) | (32,988) |
| **Financing Activities** | | |
| Net increase in deposits | 409,964 | 123,881 |
| Net (decrease) increase in FHLB advances | (260,385) | 275,022 |
| Net increase (decrease) in securities sold under repurchase agreements | 11,891 | (7,584) |
| Net decrease in Federal Reserve Bank discount window | (225,000) | (327,000) |
| Net (decrease) increase in other borrowed funds | (3,610) | 8,844 |
| Cash dividends paid | (18,697) | (15,999) |
| Excess (deficiencies) benefits related to the exercise of stock options | (4) | 75 |
| Proceeds from exercise of stock options and other stock issued | 145,654 | 2,554 |
| Net cash provided by financing activities | 59,813 | 59,793 |
| Net (decrease) increase in cash and cash equivalents | (42,107) | 52,531 |
| Cash and cash equivalents at beginning of period | 210,575 | 135,255 |
| Cash and cash equivalents at end of period | $ 168,468 | 187,786 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Cash paid during the period for interest | $ 27,262 | 30,423 |
| Cash paid during the period for income taxes | 8,061 | 23,407 |
| Sale and refinancing of other real estate owned | 6,320 | 2,243 |
| Other real estate acquired in settlement of loans | 45,888 | 44,584 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**Notes to Unaudited Condensed Consolidated Financial Statements**

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, 2010 and 2009, stockholders equity and comprehensive income for the six months ended June 30, 2010, the results of operations for the three and six month periods ended June 30, 2010 and 2009, and cash flows for the six months ended June 30, 2010 and 2009. The condensed consolidated statement of financial condition and statement of stockholders equity and comprehensive income of the Company as of December 31, 2009 have been derived from the audited consolidated statements of the Company as of that date.

The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2009. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results anticipated for the year ending December 31, 2010. Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan and lease losses ( ALLL or allowance ) and the valuations related to investments, business combinations and real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the ALLL and other real estate valuation estimates management obtains independent appraisals for significant items. Estimates relating to investments are obtained from independent parties. Estimates relating to business combinations are determined based on internal calculations using significant independent party inputs and independent party valuations.

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 a regional multi-bank holding company that provides a full range of banking services to individual and corporate customers in Montana, Idaho, Wyoming, Colorado, Utah and Washington through its bank subsidiaries (collectively referred to hereafter as the Banks ). The bank subsidiaries are subject to competition from other financial service providers. The bank subsidiaries are also subject to the regulations of certain government agencies and undergo periodic examinations by those regulatory authorities.

As of June 30, 2010, the Company is the parent holding company for eleven wholly-owned, independent community bank subsidiaries: Glacier Bank ( Glacier ), First Security Bank of Missoula ( First Security ), Western Security Bank ( Western ), Big Sky Western Bank ( Big Sky ), Valley Bank of Helena ( Valley ), and First Bank of Montana ( First Bank-MT ), all located in Montana, Mountain West Bank ( Mountain West ) and Citizens Community Bank ( Citizens ) located in Idaho; st Bank ( st Bank ) and First National Bank & Trust ( First National ) located in Wyoming, and Bank of the San Juans ( San Juans ) located in Colorado.

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In April 2010, the Company formed a wholly owned subsidiary, GBCI Other Real Estate ( GORE ) to isolate bank foreclosed properties for legal protection and administrative purposes. During the quarter, foreclosed properties were transferred to the new entity from bank subsidiaries at fair market value and such properties are currently held for sale.

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

On October 2, 2009, the Company completed the acquisition of First Company and its subsidiary First National. First National became a separate wholly-owned subsidiary of the Company and the financial condition and results of operations are included from the acquisition date.

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

The Company has equity investments in Certified Development Entities ( CDE ) which have received allocations of new markets tax credits ( NMTC ). The Company also has equity investments in low-income housing tax credit ( LIHTC ) partnerships. The CDE s and the LIHTC partnerships are VIE s. The underlying activities of the VIE s are community development projects designed primarily to promote community welfare, such as economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents. The maximum exposure to loss in the VIE s is the amount of equity invested or credit extended by the Company; however, the Company has credit protection in the form of indemnification agreements, guarantees, and collateral arrangements. The Company has evaluated the variable interests held by the Company and others and where the Company is the primary beneficiary of a VIE, the VIE has been consolidated into the bank subsidiary which holds the direct investment in the VIE. Currently, only CDE (NMTC) investments are consolidated into the Company s financial statements. For the CDE (NMTC) investments, the creditors and other beneficial interest holders have no recourse to the general credit of the bank subsidiaries. As of June 30, 2010, the Company had investments in VIE s of $39,876,000 and $2,362,000 for the CDE (NMTC) and LIHTC partnerships, respectively. The consolidated VIE s as well as the unconsolidated VIE s are regularly monitored by the Company to determine if any reconsideration events have occurred that could cause its primary beneficiary status to change.

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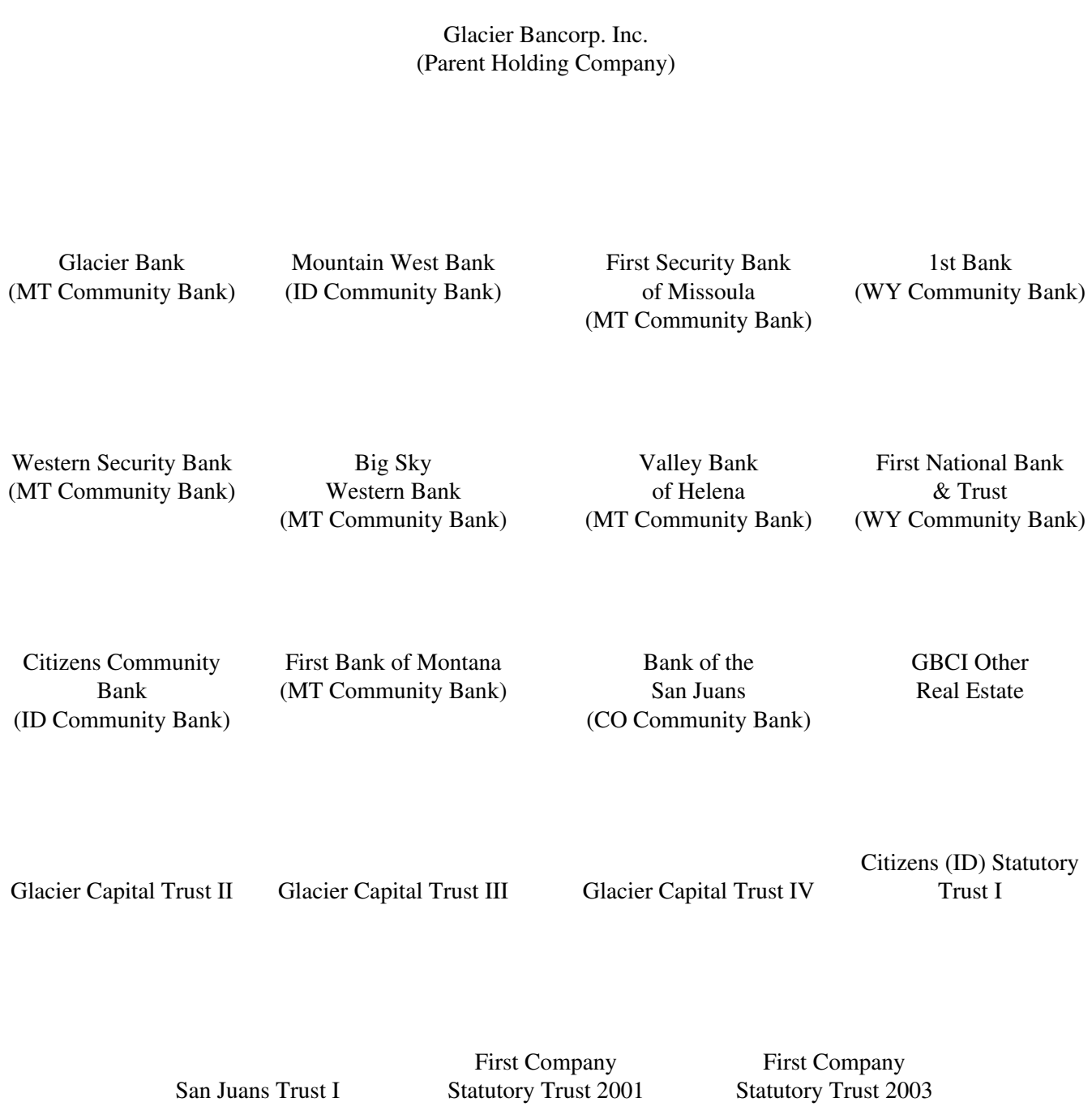
See Note 12 *Operating Segment Information* for selected financial data including net earnings and total assets for the parent company and each of the subsidiaries. Although the consolidated total assets of the Company were $6.3 billion at June 30, 2010, nine of the eleven community banks had total assets of less than $1 billion. The smallest community bank subsidiary had $194 million in total assets, while the largest community bank subsidiary had $1.3 billion in total assets at June 30, 2010.

The following abbreviated organizational chart illustrates the various relationships as of June 30, 2010:



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3) Investment Securities

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

| | As of June 30, 2010 | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Weighted Yield | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. Government and federal agency | | | | | |
| Maturing after one year through five years | 1.62% | $ 210 | 4 | | 214 |
| Government sponsored enterprises | | | | | |
| Maturing after one year through five years | 2.43% | 41,963 | 627 | | 42,590 |
| Maturing after five years through ten years | 1.75% | 82 | | | 82 |
| Maturing after ten years | 1.15% | 11 | | | 11 |
| | 2.43% | 42,056 | 627 | | 42,683 |
| State and local governments and other issues | | | | | |
| Maturing within one year | 3.95% | 920 | 7 | | 927 |
| Maturing after one year through five years | 3.92% | 8,970 | 202 | (6) | 9,166 |
| Maturing after five years through ten years | 4.15% | 27,339 | 674 | (67) | 27,946 |
| Maturing after ten years | 4.80% | 481,374 | 10,697 | (1,944) | 490,127 |
| | 4.75% | 518,603 | 11,580 | (2,017) | 528,166 |
| Collateralized debt obligations | | | | | |
| Maturing after ten years | 8.40% | 14,360 | | (5,532) | 8,828 |
| Residential mortgage-backed securities | 2.58% | 1,088,635 | 17,531 | (7,734) | 1,098,432 |
| Total marketable securities | 3.31% | 1,663,864 | 29,742 | (15,283) | 1,678,323 |
| Other investments | | | | | |
| FHLB and FRB stock, at cost | 1.42% | 64,319 | | | 64,319 |
| Other stock | 0.05% | 624 | 7 | (5) | 626 |
| Total investment securities | 3.23% | $ 1,728,807 | 29,749 | (15,288) | 1,743,268 |

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| (Dollars in thousands) | Weighted Yield | As of December 31, 2009 Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|---|
| U.S. Government and federal agency | | | | | |
| Maturing after one year through five years | 1.62% | $ 210 | | (1) | 209 |
| Government sponsored enterprises | | | | | |
| Maturing after one year through five years | 3.21% | 74 | | | 74 |
| Maturing after five years through ten years | 1.64% | 40 | | | 40 |
| Maturing after ten years | 2.05% | 63 | | | 63 |
| | 2.43% | 177 | | | 177 |
| State and local governments and other issues | | | | | |
| Maturing within one year | 2.48% | 2,040 | 6 | | 2,046 |
| Maturing after one year through five years | 3.30% | 9,326 | 208 | (12) | 9,522 |
| Maturing after five years through ten years | 3.84% | 27,125 | 786 | (168) | 27,743 |
| Maturing after ten years | 4.80% | 434,165 | 10,140 | (2,640) | 441,665 |
| | 4.71% | 472,656 | 11,140 | (2,820) | 480,976 |
| Collateralized debt obligations | | | | | |
| Maturing after ten years | 8.40% | 14,688 | | (7,899) | 6,789 |
| Residential mortgage-backed securities | 3.42% | 956,033 | 15,167 | (16,158) | 955,042 |
| Total marketable securities | 3.89% | 1,443,764 | 26,307 | (26,878) | 1,443,193 |
| Other investments | | | | | |
| FHLB and FRB stock, at cost | 1.30% | 62,577 | | | 62,577 |
| Other stock | 0.05% | 624 | | | 624 |
| Total investment securities | 3.78% | $ 1,506,965 | 26,307 | (26,878) | 1,506,394 |

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

Interest income includes tax-exempt interest for the six months ended June 30, 2010 and 2009 of $11,438,000 and $11,070,000, respectively, and for the three months ended June 30, 2010 and 2009 of $5,870,000 and $5,739,000 respectively.

Gross proceeds from sale of marketable securities for the six months ended June 30, 2010 and 2009 were $32,323,000 and $0, respectively, resulting in gross gains of $1,349,000 and $0, respectively, and gross losses of $793,000 and $0, respectively. The cost of any investment sold is determined by specific identification.

At June 30, 2010, the Company had investment securities with carrying values of approximately $904,230,000, pledged as collateral for Federal Home Loan Bank ( FHLB ) advances, Federal Reserve Bank ( FRB ) discount window borrowings, securities sold under agreements to repurchase, U.S. Treasury Tax and Loan borrowings and deposits of several local government units.

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

Investments with an unrealized loss position at June 30, 2010:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| State and local governments and other issues | $ 69,320 | 985 | 22,342 | 1,032 | 91,662 | 2,017 |
| Collateralized debt obligations | 1,940 | 60 | 6,888 | 5,472 | 8,828 | 5,532 |
| Residential mortgage-backed securities | 431,208 | 1,783 | 36,090 | 5,951 | 467,298 | 7,734 |
| Other investments other stock | 7 | 5 | | | 7 | 5 |
| Total temporarily impaired securities | $ 502,475 | 2,833 | 65,320 | 12,455 | 567,795 | 15,288 |

Investments with an unrealized loss position at December 31, 2009:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. Government and federal agency | $ 208 | 1 | | | 208 | 1 |
| State and local governments and other issues | 74,045 | 1,835 | 18,094 | 985 | 92,139 | 2,820 |
| Collateralized debt obligations | 6,789 | 7,899 | | | 6,789 | 7,899 |
| Residential mortgage-backed securities | 466,196 | 3,861 | 39,780 | 12,297 | 505,976 | 16,158 |
| Total temporarily impaired securities | $ 547,238 | 13,596 | 57,874 | 13,282 | 605,112 | 26,878 |

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

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

to the Company s impairment analysis.

In evaluating debt securities for other-than-temporary impairment losses, management assesses whether the Company intends to sell or if it is more likely-than-not that it will be required to sell impaired debt securities. In so doing, management considers contractual constraints, liquidity, capital, asset / liability management and securities portfolio objectives. With respect to its impaired debt securities at June 30, 2010, management determined that it does not intend to sell and that there is no expected requirement to sell any of its impaired debt securities.

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Based on an analysis of its impaired securities as of June 30, 2010, the Company determined that none of such securities had other-than-temporary impairment.

4) Loans Receivable, Net and Loans Held for Sale

The following table summarizes the Company s loan and lease portfolio:

| | June 30, 2010 | | December 31, 2009 | | June 30, 2009 | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Amount | Percent | Amount | Percent | Amount | Percent |
| Real estate loans | | | | | | |
| Residential | $ 693,768 | 17.8% | $ 746,050 | 18.7% | $ 747,931 | 18.6% |
| Held for sale | 73,207 | 1.9% | 66,330 | 1.7% | 92,166 | 2.3% |
| Total | 766,975 | 19.7% | 812,380 | 20.4% | 840,097 | 20.9% |
| Commercial loans | | | | | | |
| Real estate | 1,882,285 | 48.4% | 1,900,438 | 47.7% | 1,944,784 | 48.2% |
| Other commercial | 692,031 | 17.8% | 724,966 | 18.2% | 649,634 | 16.1% |
| Total | 2,574,316 | 66.2% | 2,625,404 | 65.9% | 2,594,418 | 64.3% |
| Consumer and other loans | | | | | | |
| Consumer | 188,654 | 4.8% | 201,001 | 5.0% | 198,454 | 4.9% |
| Home equity | 510,030 | 13.1% | 501,920 | 12.6% | 502,288 | 12.5% |
| Total | 698,684 | 17.9% | 702,921 | 17.6% | 700,742 | 17.4% |
| Net deferred loan fees premiums and discounts | (7,806) | -0.2% | (10,460) | -0.3% | (6,498) | -0.2% |
| Loans receivable, gross | 4,032,169 | 103.6% | 4,130,245 | 103.6% | 4,128,759 | 102.4% |
| Allowance for loan and lease losses | (141,665) | -3.6% | (142,927) | -3.6% | (97,374) | -2.4% |
| Loans receivable, net | $ 3,890,504 | 100.0% | $ 3,987,318 | 100.0% | $ 4,031,385 | 100.0% |

In June 2009, FASB issued an amendment to FASB ASC Topic 860, *Accounting for Transfers and Servicing of Financial Assets*, and is effective for transfers occurring after the beginning of the first annual reporting period that begins after November 15, 2009. The Company adopted this amendment for all new transfers, primarily consisting of transfers of loans, occurring on or subsequent to January 1, 2010. The Company generally sells its long-term mortgage loans originated, retaining servicing only when required by certain lenders. The sale of loans in the secondary mortgage market reduces the Company s risk of holding long-term fixed rate loans in the loan portfolio. Mortgage loans sold with no servicing rights retained for the six months ended June 30, 2010 and 2009 were $402,116,000 and $706,310,000, respectively. The amount of loans sold and serviced for others at June 30, 2010 and 2009 was approximately $181,348,000 and $170,594,000, respectively.

In accordance with this amendment, transfers of SBA loans are recognized as sales when the warranty period expires, which is typically 90 days. The Company has been active in originating commercial SBA loans, some of which are sold to investors. As of June 30, 2010, the Company had $8,094,000 of SBA loans sold for which there was a deferred gain of $753,000 due to unexpired warranty periods.

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The Company occasionally purchases and sells other loan participations, the majority of which are large commercial loans. For participation transactions after the adoption of the amendment, the bank subsidiaries typically originate and sell the loan participations, at fair value, on a proportionate ownership basis, with no recourse conditions.
The following table sets forth information regarding the Company s non-performing assets at the dates indicated:

| (Dollars in thousands) | June 30, 2010 | December 31, 2009 | June 30, 2009 |
|---|---|---|---|
| Real estate and other assets owned | $ 64,419 | 57,320 | 47,424 |
| Accruing loans 90 days or more overdue | 3,030 | 5,537 | 10,086 |
| Non-accrual loans | 190,338 | 198,281 | 116,362 |
| Total non-performing assets | $ 257,787 | 261,138 | 173,872 |
| Non-performing assets as a percentage of total subsidiary assets | 4.01% | 4.13% | 3.06% |

The following table summarizes impaired loans at the dates indicated:

| (Dollars in thousands) | June 30, 2010 | December 31, 2009 | June 30, 2009 |
|---|---|---|---|
| Impaired loans, without valuation allowance | $ 144,109 | 141,613 | 92,338 |
| Impaired loans, with valuation allowance | 72,830 | 77,129 | 47,749 |
| Impaired loans, gross | 216,939 | 218,742 | 140,087 |
| Valuation allowance included in ALLL | (15,221) | (19,760) | (9,034) |
| Impaired loans, net | $ 201,718 | 198,982 | 131,053 |

The following table illustrates the loan and lease loss experience:

| (Dollars in thousands) | June 30, 2010 | December 31, 2009 | June 30, 2009 |
|---|---|---|---|
| Balance at the beginning of the year | $ 142,927 | 76,739 | 76,739 |
| Charge-offs | (41,584) | (60,896) | (21,246) |
| Recoveries | 2,166 | 2,466 | 1,026 |
| Provision | 38,156 | 124,618 | 40,855 |
| Balance at the end of the period | $ 141,665 | 142,927 | 97,374 |
| Net charge-offs as a percentage of total loans | 0.98% | 1.42% | 0.49% |

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5) Intangible Assets

The following table sets forth information regarding the Company s core deposit intangible and mortgage servicing rights as of June 30, 2010:

| (Dollars in thousands) | Core Deposit Intangible | Mortgage Servicing Rights [1] | Total |
|---|---|---|---|
| Gross carrying value | $ 31,847 | | |
| Accumulated amortization | (19,531) | | |
| Net carrying value | $ 12,316 | 978 | 13,294 |
| Weighted-average amortization period (Period in years) | 9.1 | 9.3 | 9.1 |
| Aggregate amortization expense | | | |
| For the three months ended June 30, 2010 | $ 801 | 46 | 847 |
| For the six months ended June 30, 2010 | 1,621 | 81 | 1,702 |
| Estimated amortization expense | | | |
| For the year ended December 31, 2010 | $ 2,603 | 116 | 2,719 |
| For the year ended December 31, 2011 | 1,895 | 69 | 1,964 |
| For the year ended December 31, 2012 | 1,534 | 67 | 1,601 |
| For the year ended December 31, 2013 | 1,283 | 65 | 1,348 |
| For the year ended December 31, 2014 | 1,034 | 63 | 1,097 |

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

Acquisitions are accounted for as prescribed by FASB ASC Topic 805, *Business Combinations*. Acquisition accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets. Goodwill is recorded if the purchase price exceeds the net fair value of assets acquired and a bargain purchase gain is recorded in other income if the net fair value of assets acquired exceeds the purchase price.

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

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6) Deposits

The following table illustrates the amounts outstanding for deposits $100,000 and greater at June 30, 2010 according to the time remaining to maturity. Included in the Certificates of Deposit are brokered deposits of $504,399,000, of which $395,685,000 are issued through the Certificate of Deposit Account Registry System. Included in the Demand Deposits are brokered deposits of $142,253,000.

| (Dollars in thousands) | Certificates of Deposit | Demand Deposits | Totals |
|---|---|---|---|
| Within three months | $ 433,687 | 1,699,321 | 2,133,008 |
| Three months to six months | 280,875 | | 280,875 |
| Seven months to twelve months | 185,349 | | 185,349 |
| Over twelve months | 119,816 | | 119,816 |
| Totals | $ 1,019,727 | 1,699,321 | 2,719,048 |

7) Advances and Other Borrowings

The following chart illustrates the average balances and the maximum outstanding month-end balances for FHLB advances, repurchase agreements and borrowings through the FRB:

| (Dollars in thousands) | As of and for the Six Months ended June 30, 2010 | As of and for the Year ended December 31, 2009 | As of and for the Six Months ended June 30, 2009 |
|---|---|---|---|
| FHLB advances | | | |
| Amount outstanding at end of period | $ 529,982 | 790,367 | 613,478 |
| Average balance | $ 717,628 | 473,038 | 352,183 |
| Maximum outstanding at any month-end | $ 807,644 | 790,367 | 613,478 |
| Weighted average interest rate | 1.34% | 1.68% | 2.10% |
| Repurchase agreements | | | |
| Amount outstanding at end of period | $ 224,397 | 212,506 | 180,779 |
| Average balance | $ 222,371 | 204,503 | 191,388 |
| Maximum outstanding at any month-end | $ 242,110 | 234,914 | 199,669 |
| Weighted average interest rate | 0.74% | 0.98% | 1.06% |
| Federal Reserve Bank discount window | | | |
| Amount outstanding at end of period | $ | 225,000 | 587,000 |
| Average balance | $ 71,851 | 658,262 | 891,558 |
| Maximum outstanding at any month-end | $ 235,000 | 1,005,000 | 1,005,000 |
| Weighted average interest rate | 0.25% | 0.26% | 0.27% |
| Total FHLB advances, repurchase agreements, and Federal Reserve Bank discount window | | | |
| Amount outstanding at end of period | $ 754,379 | 1,227,873 | 1,381,257 |
| Average balance | $ 1,011,850 | 1,335,803 | 1,435,129 |
| Maximum outstanding at any month-end | $ 1,284,754 | 2,030,281 | 1,818,147 |
| Weighted average interest rate | 1.13% | 0.87% | 0.82% |

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8) Stockholders Equity

The Federal Reserve Board has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. The following table illustrates the Federal Reserve Board s capital adequacy guidelines and the Company s compliance with those guidelines as of June 30, 2010.

| (Dollars in thousands) | Tier 1 (Core) Capital | Tier 2 (Total) Capital | Leverage Capital |
|---|---|---|---|
| Total stockholders equity | $ 845,748 | 845,748 | 845,748 |
| Less: | | | |
| Goodwill and intangibles | (152,133) | (152,133) | (152,133) |
| Accumulated other comprehensive unrealized gain on AFS securities | (8,793) | (8,793) | (8,793) |
| Plus: | | | |
| Allowance for loan and lease losses | | 58,296 | |
| Unrealized gain on AFS securities | | 1 | |
| Subordinated debentures | 124,500 | 124,500 | 124,500 |
| Regulatory capital | $ 809,322 | 867,619 | 809,322 |
| Risk weighted assets | $ 4,580,391 | 4,580,391 | |
| Total adjusted average assets | | | $ 6,118,846 |
| Capital as % of risk weighted assets | 17.67% | 18.94% | 13.23% |
| Regulatory well capitalized requirement | 6.00% | 10.00% | 5.00% |
| Excess over well capitalized requirement | 11.67% | 8.94% | 8.23% |

9) 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:

| | For the Three Months ended June 30, | | For the Six Months ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Net earnings available to common stockholders, basic and diluted | $ 13,222,000 | 10,652,000 | 23,292,000 | 26,431,000 |
| Average outstanding shares basic | 71,913,102 | 61,515,946 | 67,363,476 | 61,489,422 |
| Add: dilutive stock options | 1,792 | 2,343 | 901 | 3,844 |
| Average outstanding shares diluted | 71,914,894 | 61,518,289 | 67,364,377 | 61,493,266 |

| | | | | | |
|---|---|---|---|---|---|
| Basic earnings per share | $ | 0.19 | 0.17 | 0.35 | 0.43 |
| Diluted earnings per share | $ | 0.19 | 0.17 | 0.35 | 0.43 |

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There were approximately 1,861,188 and 2,399,487 average shares excluded from the diluted average outstanding share calculation for the three months ended June 30, 2010 and 2009, respectively, due to the option exercise price exceeding the market price.

10) Comprehensive Income

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

| | For the Three Months ended June 30, | | For the Six Months ended June 30, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2010 | 2009 | 2010 | 2009 |
| Net earnings | $ 13,222 | 10,652 | 23,292 | 26,431 |
| Unrealized holding gain (loss) arising during the period | 5,635 | 7,687 | 15,588 | (1,866) |
| Tax (expense) benefit | (2,209) | (3,012) | (6,109) | 727 |
| Net after tax | 3,426 | 4,675 | 9,479 | (1,139) |
| Reclassification adjustment for gains included in net earnings | (242) | | (556) | |
| Tax expense | 95 | | 218 | |
| Net after tax | (147) | | (338) | |
| Net unrealized gain (loss) on securities | 3,279 | 4,675 | 9,141 | (1,139) |
| Total comprehensive income | $ 16,501 | 15,327 | 32,433 | 25,292 |

11) Federal and State Income Taxes

The Company and its bank subsidiaries join together in the filing of consolidated income tax returns in the following jurisdictions: federal, Montana, Idaho, Colorado and Utah. Although 1st Bank and First National have operations in Wyoming and Mountain has operations in Washington, neither Wyoming nor Washington imposes a corporate-level income tax. All required income tax returns have been timely filed. The following schedule summarizes the years that remain subject to examination as of June 30, 2010:

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

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During 2010 and 2009, the Company made investments in CDE s which received NMTC allocations. Administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury, the NMTC program is aimed at stimulating economic and community development and job creation in low-income communities. The federal income tax credits received are claimed over a seven-year credit allowance period. The Company also has made investments in LIHTC s which are indirect Federal subsidies used to finance the development of affordable rental housing for low-income households. The federal income tax credits received are claimed over a ten-year credit allowance period. The Company invests in Qualified Zone Academy and Qualified School Construction bonds whereby the Company receives quarterly federal income tax credits until the bonds mature. The federal income tax credits on the bonds are subject to federal and state income tax. Following is a list of expected federal income tax credits to be received in the years indicated.

| Years ended (Dollars in thousands) | New Markets Tax Credits | Low-Income Housing Tax Credits | Investment Securities Tax Credits | Total |
|---|---|---|---|---|
| 2010 | $ 2,000 | 337 | 916 | 3,253 |
| 2011 | 2,000 | 785 | 970 | 3,755 |
| 2012 | 2,306 | 785 | 970 | 4,061 |
| 2013 | 2,400 | 785 | 970 | 4,155 |
| 2014 | 2,400 | 785 | 970 | 4,155 |
| Thereafter | 2,964 | 3,324 | 8,349 | 14,637 |
| | $ 14,070 | 6,801 | 13,145 | 34,016 |

The Company determined its unrecognized tax benefit to be $0 and $113,000 as of June 30, 2010 and 2009, respectively. The Company recognizes interest related to unrecognized income tax benefits in interest expense and penalties are recognized in other expense. During the six months ended June 30, 2010 and 2009, the Company did not recognize interest expense or penalties with respect to income tax liabilities. The Company had approximately $0 and $20,000 accrued for the payment of interest at June 30, 2010 and 2009, respectively. The Company had no accrued liabilities for the payment of penalties at June 30, 2010 and 2009.

12) Operating Segment Information

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

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

The following schedules provide selected financial data for the Company s operating segments:

| | Three months ended and as of June 30, 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Glacier | Mountain West | First Security | 1st Bank | Western | Big Sky | Valley | First National |
| External revenues | $ 18,969 | 22,183 | 13,097 | 7,753 | 8,811 | 5,099 | 5,798 | 3,659 |
| Intersegment revenues | 48 | 19 | 20 | 30 | 123 | 1 | 40 | 14 |
| Expenses | (16,407) | (21,759) | (10,057) | (6,919) | (6,686) | (4,397) | (3,921) | (3,180) |
| Net Earnings (Loss) | $ 2,610 | 443 | 3,060 | 864 | 2,248 | 703 | 1,917 | 493 |
| Total Assets | $ 1,320,555 | 1,200,382 | 932,179 | 644,877 | 610,208 | 366,439 | 368,321 | 295,164 |

| | Citizens | First Bank of MT | San Juans | GORE | Parent | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|---|
| External revenues | $ 4,608 | 2,472 | 2,688 | 43 | 56 | | 95,236 |
| Intersegment revenues | 28 | 32 | 24 | | 17,885 | (18,264) | |
| Expenses | (3,842) | (1,705) | (2,135) | (268) | (4,719) | 3,981 | (82,014) |
| Net Earnings (Loss) | $ 794 | 799 | 577 | (225) | 13,222 | (14,283) | 13,222 |
| Total Assets | $ 271,190 | 193,806 | 204,815 | 19,856 | 985,895 | (1,118,851) | 6,294,836 |

| | Three months ended and as of June 30, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Glacier | Mountain West | First Security | 1st Bank | Western | Big Sky | Valley |
| External revenues | $ 20,283 | 23,859 | 13,332 | 8,470 | 9,055 | 5,522 | 5,777 |
| Intersegment revenues | 46 | 1 | 248 | 55 | 208 | | 66 |
| Expenses | (17,555) | (22,853) | (10,279) | (9,637) | (7,762) | (4,746) | (4,231) |
| Net Earnings (Loss) | $ 2,774 | 1,007 | 3,301 | (1,112) | 1,501 | 776 | 1,612 |
| Total Assets | $ 1,217,302 | 1,266,555 | 831,352 | 588,480 | 541,763 | 332,505 | 291,021 |

| | Citizens | First Bank of MT | San Juans | Parent | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| External revenues | $ 4,186 | 2,521 | 2,643 | 58 | 32 | 95,738 |
| Intersegment revenues | 2 | | | 14,990 | (15,616) | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Expenses | (3,591) | (1,844) | (2,193) | (4,396) | 4,001 | (85,086) |
| Net Earnings (Loss) | $ 597 | 677 | 450 | 10,652 | (11,583) | 10,652 |
| Total Assets | $ 243,830 | 176,222 | 177,850 | 825,575 | (854,031) | 5,638,424 |

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| | Six Months ended and as of June 30, 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Glacier | Mountain West | First Security | 1st Bank | Western | Big Sky | Valley | First National |
| External revenues | $ 37,704 | 41,133 | 25,653 | 15,729 | 16,939 | 9,935 | 10,890 | 7,699 |
| Intersegment revenues | 96 | 38 | 38 | 121 | 255 | 1 | 76 | 22 |
| Expenses | (34,142) | (40,243) | (20,217) | (13,420) | (13,003) | (8,901) | (7,552) | (6,856) |
| Net Earnings (Loss) | $ 3,658 | 928 | 5,474 | 2,430 | 4,191 | 1,035 | 3,414 | 865 |
| Total Assets | $ 1,320,555 | 1,200,382 | 932,179 | 644,877 | 610,208 | 366,439 | 368,321 | 295,164 |

| | Citizens | First Bank of MT | San Juans | GORE | Parent | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|---|
| External revenues | $ 8,756 | 4,892 | 5,325 | 43 | 119 | | 184,817 |
| Intersegment revenues | 28 | 82 | 24 | | 32,521 | (33,302) | |
| Expenses | (7,412) | (3,396) | (4,596) | (268) | (9,348) | 7,829 | (161,525) |
| Net Earnings (Loss) | $ 1,372 | 1,578 | 753 | (225) | 23,292 | (25,473) | 23,292 |
| Total Assets | $ 271,190 | 193,806 | 204,815 | 19,856 | 985,895 | (1,118,851) | 6,294,836 |

| | Six Months ended and as of June 30, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Glacier | Mountain West | First Security | 1st Bank | Western | Big Sky | Valley |
| External revenues | $ 41,022 | 45,239 | 26,644 | 16,781 | 17,994 | 11,168 | 11,474 |
| Intersegment revenues | 93 | 1 | 555 | 126 | 371 | | 85 |
| Expenses | (33,766) | (43,043) | (20,391) | (16,940) | (14,811) | (9,284) | (8,277) |
| Net Earnings (Loss) | $ 7,349 | 2,197 | 6,808 | (33) | 3,554 | 1,884 | 3,282 |
| Total Assets | $ 1,217,302 | 1,266,555 | 831,352 | 588,480 | 541,763 | 332,505 | 291,021 |

| | Citizens | First Bank of MT | San Juans | Parent | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| External revenues | $ 8,105 | 4,933 | 5,171 | 116 | | 188,647 |
| Intersegment revenues | 2 | | | 35,242 | (36,475) | |
| Expenses | (6,910) | (3,611) | (4,306) | (8,927) | 8,050 | (162,216) |
| Net Earnings (Loss) | $ 1,197 | 1,322 | 865 | 26,431 | (28,425) | 26,431 |
| Total Assets | $ 243,830 | 176,222 | 177,850 | 825,575 | (854,031) | 5,638,424 |

13) Fair Value Measurement

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, requires the Company to disclose information relating to fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Topic establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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The following is a description of the inputs and valuation methodologies used for financial assets measured at fair value on a recurring basis. There have been no significant changes in the valuation techniques during the period ended June 30, 2010.

Investment securities fair value for available-for-sale securities is estimated by obtaining quoted market prices for identical assets, where available. If such prices are not available, fair value is based on independent asset pricing services and models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. For those securities where greater reliance on unobservable inputs occurs, such securities are classified as Level 3 within the hierarchy.

The following schedule discloses the major class of assets measured at fair value on a recurring basis for the period ended June 30, 2010:

| (Dollars in thousands) | Assets/ Liabilities Measured at Fair Value 6/30/10 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Financial assets | | | | |
| U.S. Government and federal agency | $ 214 | | 214 | |
| Government sponsored enterprises | 42,683 | | 42,683 | |
| State and local governments and other issues | 528,166 | | 528,166 | |
| Collateralized debt obligations | 8,828 | | | 8,828 |
| Residential mortgage-backed securities | 1,098,432 | | 1,096,540 | 1,892 |
| Total financial assets | $ 1,678,323 | | 1,667,603 | 10,720 |

The following schedule discloses the major class of assets measured at fair value on a recurring basis for the period ended June 30, 2009:

| (Dollars in thousands) | Assets/ Liabilities Measured at Fair Value 6/30/09 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Financial assets | | | | |
| U.S. Government and federal agency | $ 207 | | 207 | |
| Government sponsored enterprises | 291 | | 291 | |
| State and local governments and other issues | 466,382 | | 466,107 | 275 |
| Collateralized debt obligations | 9,972 | | | 9,972 |
| Residential mortgage-backed securities | 455,820 | | 450,567 | 5,253 |
| Total financial assets | $ 932,672 | | 917,172 | 15,500 |

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The following schedules reconcile the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six month periods ended June 30, 2010 and 2009.

| | | Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|---|
| (Dollars in thousands) | Total | State and Local Government and Other Issues | Collateralized Debt Obligations | Residential Mortgage-backed Securities |
| Balance as of December 31, 2009 | $ 9,988 | 2,088 | 6,789 | 1,111 |
| Total unrealized gains included in other comprehensive income | 3,147 | | 2,366 | 781 |
| Amortization, accretion and principal payments | (327) | | (327) | |
| Transfers out of Level 3 | (2,088) | (2,088) | | |
| Balance as of June 30, 2010 | $ 10,720 | | 8,828 | 1,892 |

| | | Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|---|
| (Dollars in thousands) | Total | State and Local Government and Other Issues | Collateralized Debt Obligations | Residential Mortgage-backed Securities |
| Balance as of December 31, 2008 | $ 23,421 | 284 | 15,540 | 7,597 |
| Total unrealized gains included in other comprehensive income | (7,295) | | (5,408) | (1,887) |
| Amortization, accretion and principal payments | (887) | (9) | (160) | (718) |
| Purchases | 261 | | | 261 |
| Balance as of June 30, 2009 | $ 15,500 | 275 | 9,972 | 5,253 |

The change in unrealized gains related to available-for-sale securities is reported in the accumulated other comprehensive income (loss). A state and local government security was transferred out of Level 3 and into Level 2 during the first quarter 2010 as a result of third party pricing being obtained and expected to be obtained in future quarters, whereas third party pricing was unavailable prior to first quarter 2010 for such security and there was a greater reliance on unobservable inputs for fair value.

The following is a description of the inputs and valuation methodologies used for assets recorded at fair value on a non-recurring basis. There have been no significant changes in the valuation techniques during the period ended June 30, 2010.

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

Collateral-dependent impaired loans, net of ALLL loans included in the Company s financials for which it is probable that the Company will not collect all principal and interest due according to contractual terms are considered impaired in accordance with FASB ASC Topic 310, *Receivables*. Estimated fair value of collateral-dependent impaired loans is based on the fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

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The following schedule discloses the major class of assets with a recorded change in the financial statements resulting from re-measuring the assets at fair value on a non-recurring basis for the periods ended June 30, 2010 and 2009:

| (Dollars in thousands) | Assets/ Liabilities Measured at Fair Value 6/30/10 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Financial assets | | | | |
| Other real estate owned | $ 3,694 | | | 3,694 |
| Collateral-dependent impaired loans, net of allowance for loan and lease losses | 49,162 | | | 49,162 |
| Total financial assets | $ 52,856 | | | 52,856 |

| (Dollars in thousands) | Assets/ Liabilities Measured at Fair Value 6/30/09 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Financial assets | | | | |
| Other real estate owned | $ 6,883 | | | 6,883 |
| Collateral-dependent impaired loans, net of allowance for loan and lease losses | 42,015 | | | 42,015 |
| Total financial assets | $ 48,898 | | | 48,898 |

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

Financial Assets

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

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

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

Financial Liabilities

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

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

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

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

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

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

The following presents the carrying amounts and estimated fair values in accordance with FASB ASC Topic 825, *Financial Instruments*, as of June 30, 2010:

| | June 30, 2010 | | June 30, 2009 | |
|---|---|---|---|---|
| (Dollars in thousands) | Amount | Fair Value | Amount | Fair Value |
| Financial assets | | | | |
| Cash and cash equivalents | $ 168,468 | 168,468 | 187,786 | 187,786 |
| Investment securities | 1,678,949 | 1,678,949 | 933,136 | 933,136 |
| FHLB and FRB stock | 64,319 | 64,319 | 61,011 | 61,011 |
| Loans receivable, net of allowance for loan and lease losses | 3,890,504 | 3,880,395 | 4,031,385 | 4,036,828 |
| Accrued interest receivable | 29,973 | 29,973 | 30,346 | 30,346 |
| Total financial assets | $ 5,832,213 | 5,822,104 | 5,243,664 | 5,249,107 |
| Financial liabilities | | | | |
| Deposits | $ 4,510,116 | 4,521,182 | 3,386,443 | 3,397,205 |
| Federal Home Loan Bank advances | 529,982 | 542,390 | 613,478 | 618,812 |
| Federal Reserve Bank discount window | | | 587,000 | 587,000 |
| Repurchase agreements and other borrowed funds | 234,460 | 234,472 | 197,971 | 197,993 |
| Subordinated debentures | 125,060 | 74,488 | 120,157 | 65,987 |
| Accrued interest payable | 8,300 | 8,300 | 8,421 | 8,421 |
| Total financial liabilities | $ 5,407,918 | 5,380,832 | 4,913,470 | 4,875,418 |

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14) Rate/Volume Analysis

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

| | Six Months ended June 30, 2010 vs. 2009 Increase (Decrease) Due to: | | |
|---|---|---|---|
| (Dollars in thousands) | Volume | Rate | Net |
| Interest income | | | |
| Residential real estate loans | $ (2,513) | (2,445) | (4,958) |
| Commercial loans | (412) | (1,476) | (1,888) |
| Consumer and other loans | (343) | (778) | (1,121) |
| Investment securities | 15,900 | (10,669) | 5,231 |
| Total interest income | 12,632 | (15,368) | (2,736) |
| Interest expense | | | |
| NOW accounts | 377 | 5 | 382 |
| Savings accounts | 79 | (208) | (129) |
| Money market demand accounts | 430 | (991) | (561) |
| Certificate accounts | 2,113 | (4,394) | (2,281) |
| Wholesale deposits | 5,261 | (3,686) | 1,575 |
| FHLB advances | 3,810 | (2,716) | 1,094 |
| Repurchase agreements and other borrowed funds | (3,776) | 2,236 | (1,540) |
| Total interest expense | 8,294 | (9,754) | (1,460) |
| Net interest income | $ 4,338 | (5,614) | (1,276) |

15) Average Balance Sheet

The following schedule provides (i) the total dollar amount of interest and dividend income of the Company for earning assets and the resultant average yield; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest and dividend income and interest rate spread; and (iv) net interest margin and net interest margin (tax-equivalent). Non-accrual loans are included in the average balance of the loans.

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| (Dollars in thousands) | Three Months ended 6/30/10 Average Balance | Interest & Dividends | Average Yield/ Rate | Six Months ended 6/30/10 Average Balance | Interest & Dividends | Average Yield/ Rate |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Residential real estate loans | $ 768,174 | 11,421 | 5.95% | $ 775,634 | 23,254 | 6.00% |
| Commercial loans | 2,588,734 | 37,003 | 5.73% | 2,590,621 | 73,675 | 5.73% |
| Consumer and other loans | 695,835 | 10,720 | 6.18% | 693,525 | 21,360 | 6.21% |
| Total loans | 4,052,743 | 59,144 | 5.85% | 4,059,780 | 118,289 | 5.88% |
| Tax-exempt investment securities [1] | 473,222 | 5,870 | 4.96% | 466,530 | 11,438 | 4.90% |
| Taxable investment securities [2] | 1,294,892 | 8,804 | 2.72% | 1,238,682 | 17,489 | 2.82% |
| Total earning assets | 5,820,857 | 73,818 | 5.09% | 5,764,992 | 147,216 | 5.15% |
| Goodwill and intangibles | 159,039 | | | 159,443 | | |
| Non-earning assets | 291,083 | | | 279,947 | | |
| Total assets | $ 6,270,979 | | | $ 6,204,382 | | |
| **Liabilities** | | | | | | |
| NOW accounts | $ 714,714 | 673 | 0.38% | $ 715,472 | 1,406 | 0.40% |
| Savings accounts | 341,882 | 189 | 0.22% | 336,807 | 393 | 0.24% |
| Money market demand accounts | 847,712 | 1,962 | 0.93% | 829,746 | 3,925 | 0.95% |
| Certificate accounts | 1,080,561 | 5,183 | 1.92% | 1,076,479 | 10,594 | 1.98% |
| Wholesale deposits [3] | 602,342 | 1,215 | 0.81% | 488,388 | 2,235 | 0.92% |
| FHLB advances | 634,182 | 2,454 | 1.55% | 717,628 | 4,765 | 1.34% |
| Securities sold under agreements to repurchase and other borrowed funds | 352,840 | 2,073 | 2.36% | 429,973 | 4,315 | 2.02% |
| Total interest bearing liabilities | 4,574,233 | 13,749 | 1.21% | 4,594,493 | 27,633 | 1.21% |
| Non-interest bearing deposits | 808,371 | | | 794,263 | | |
| Other liabilities | 39,645 | | | 35,545 | | |
| Total liabilities | 5,422,249 | | | 5,424,301 | | |
| **Stockholders Equity** | | | | | | |
| Common stock | 719 | | | 674 | | |

| | | |
|---|---|---|
| Paid-in capital | 643,395 | 578,959 |
| Retained earnings | 196,250 | 194,954 |
| Accumulated other comprehensive income | 8,366 | 5,494 |
| Total stockholders equity | 848,730 | 780,081 |
| Total liabilities and stockholders equity | $ 6,270,979 | $ 6,204,382 |

| | | | | |
|---|---|---|---|---|
| Net Interest Income | $ 60,069 | | $ 119,583 | |
| Net Interest Spread | | 3.88% | | 3.94% |
| Net Interest Margin | | 4.14% | | 4.18% |
| Net Interest Margin (tax-equivalent) | | 4.35% | | 4.39% |

[1] Excludes tax effect of $5,064,000 and $2,599,000 on tax-exempt investment security income for the year-to-date and quarter ended June 30, 2010, respectively.

[2] Excludes tax effect of $709,000 and $397,000 on investment security tax credits for the year-to-date and quarter ended June 30, 2010, respectively.

[3] Wholesale deposits include brokered deposits classified as NOW, money market demand, and CDs.

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**ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

**Results of Operations The three months ended June 30, 2010 Compared to March 31, 2010 and June 30, 2009**

**Performance Summary**

The Company reported net earnings of $13.2 million for the second quarter of 2010, an increase of $2.6 million, or 24 percent, from the $10.7 million net earnings reported for the second quarter of 2009. Included in this increase was a pre-tax gain of $1.8 million from the sale of Mountain West s merchant card servicing portfolio. The diluted earnings per share of $0.19 for the quarter represented a 12 percent increase from the diluted earnings per share of $0.17 for the same quarter of 2009. Annualized return on average assets and return on average equity for the second quarter were 0.85 percent and 6.25 percent, respectively, which compares with prior year returns for the second quarter of 0.77 percent and 6.18 percent, respectively.

**Revenue Summary**

| | Three Months ended | | |
|---|---|---|---|
| (Unaudited - Dollars in thousands) | June 30, 2010 | March 31, 2010 | June 30, 2009 |
| Net interest income | | | |
| Interest income | $ 73,818 | 73,398 | 74,420 |
| Interest expense | 13,749 | 13,884 | 13,939 |
| Total net interest income | 60,069 | 59,514 | 60,481 |
| Non-interest income | | | |
| Service charges, loan fees, and other fees | 11,900 | 10,646 | 11,377 |
| Gain on sale of loans | 6,133 | 3,891 | 9,071 |
| Gain on sale of investments | 242 | 314 | |
| Other income | 3,143 | 1,332 | 870 |
| Total non-interest income | 21,418 | 16,183 | 21,318 |
| | $ 81,487 | 75,697 | 81,799 |
| Net interest margin (tax-equivalent) | 4.35% | 4.43% | 4.87% |

| (Unaudited - Dollars in thousands) | $ Change from March 31, 2010 | $ Change from June 30, 2009 | % Change from March 31, 2010 | % Change from June 30, 2009 |
|---|---|---|---|---|
| Net interest income | | | | |
| Interest income | $ 420 | (602) | 1% | -1% |
| Interest expense | (135) | (190) | -1% | -1% |
| Total net interest income | 555 | (412) | 1% | -1% |
| Non-interest income | | | | |
| Service charges, loan fees, and other fees | 1,254 | 523 | 12% | 5% |

| | | | | |
|---|---|---|---|---|
| Gain on sale of loans | 2,242 | (2,938) | 58% | -32% |
| Gain on sale of investments | (72) | 242 | -23% | n/m |
| Other income | 1,811 | 2,273 | 136% | 261% |
| Total non-interest income | 5,235 | 100 | 32% | 0% |
| | $ 5,790 | (312) | 8% | 0% |

n/m not measurable

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**Net Interest Income**

Net interest income for the current quarter increased $555 thousand and decreased $412 thousand over prior year s quarter. The current quarter net interest margin as a percentage of earning assets, on a tax-equivalent basis, was 4.35 percent which is 8 basis points lower than the 4.43 percent for the prior quarter and included a 4 basis points reduction from the reversal of interest on non-accrual loans. The net interest margin for the current quarter is 52 basis points lower than the 4.87 percent result for the second quarter of 2009.

**Non-interest Income**

Non-interest income for the quarter totaled $21.4 million, an increase of $5.2 million over the prior quarter and $100 thousand over the same quarter as last year. Fee income of $11.9 million increased $1.3 million, or 12 percent, during the quarter primarily from an increase in debit card income. This compares to an increase of $523 thousand, or 5 percent, over the same period last year. Gain on sale of loans increased $2.2 million, or 58 percent, over the prior quarter as a reduction in mortgage interest rates during the second quarter led to an increase in loan origination volume. Gain on sale of loans decreased $2.9 million, or 32 percent, over the same period last year, primarily the result of a significant reduction in re-finance activity and a slowing of residential loans originated and sold in the secondary market. Net gain on sale of investments was $242 thousand for the current quarter 2010 compared to $314 thousand for the previous quarter. Other income of $3.1 million for the current quarter is an increase of $1.8 million and $2.3 million from prior quarter and prior year second quarter, respectively, of which $1.8 million relates to the current quarter sale of Mountain West s merchant card servicing portfolio.

**Non-interest Expense**

| | Three Months ended | | |
|---|---|---|---|
| (Unaudited - Dollars in thousands) | June 30, 2010 | March 31, 2010 | June 30, 2009 |
| Compensation and employee benefits | $ 21,652 | 21,356 | 20,710 |
| Occupancy and equipment expense | 5,988 | 5,948 | 5,611 |
| Advertising and promotions | 1,644 | 1,592 | 1,722 |
| Outsourced data processing | 761 | 694 | 680 |
| Core deposit intangibles amortization | 801 | 820 | 762 |
| Other real estate owned expense | 7,373 | 2,318 | 2,321 |
| Federal Deposit Insurance Corporation premiums | 2,165 | 2,200 | 3,832 |
| Other expenses | 7,852 | 7,033 | 7,325 |
| Total non-interest expense | $ 48,236 | 41,961 | 42,963 |

| (Unaudited - Dollars in thousands) | $ Change from March 31, 2010 | $ Change from June 30, 2009 | % Change from March 31, 2010 | % Change from June 30, 2009 |
|---|---|---|---|---|
| Compensation and employee benefits | $ 296 | 942 | 1% | 5% |
| Occupancy and equipment expense | 40 | 377 | 1% | 7% |
| Advertising and promotions | 52 | (78) | 3% | -5% |
| Outsourced data processing | 67 | 81 | 10% | 12% |
| Core deposit intangibles amortization | (19) | 39 | -2% | 5% |
| Other real estate owned expense | 5,055 | 5,052 | 218% | 218% |
| Federal Deposit Insurance Corporation premiums | (35) | (1,667) | -2% | -44% |
| Other expenses | 819 | 527 | 12% | 7% |
| Total non-interest expense | $ 6,275 | 5,273 | 15% | 12% |

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Non-interest expense of $48.2 million for the quarter increased by $6.3 million, or 15 percent, from the prior quarter and increased $5.3 million, or 12 percent, from the prior year second quarter. Compensation and employee benefits of $21.7 million increased only $296 thousand, or 1 percent, from the previous quarter and $942 thousand, or 5 percent, from the prior year second quarter which is due to the addition of First National employees. The number of full-time equivalent employees increased from 1,651 to 1,654 during the quarter, and increased from 1,597 since the end of the 2009 second quarter.

Occupancy and equipment expense increased $40 thousand, or 1 percent, from the prior quarter and increased $377 thousand, or 7 percent, from the prior year second quarter. Advertising and promotion expense increased $52 thousand, or 3 percent, from prior quarter and decreased $78 thousand, or 5 percent, from the second quarter of 2009.

Other real estate owned expenses increased $5.1 million, or 218 percent, from prior quarter and increased $5.1 million, or 218 percent, from the prior year. The current quarter other real estate owned expense of $7.4 million included $1.5 million of operating expenses, $2.9 million of fair value write-downs, and $3.0 million of loss on sale of other real estate owned. The other real estate owned expenses have increased as the Company moves to aggressively dispose of problem assets and other real estate owned. Federal Deposit Insurance Corporation ( FDIC ) premiums decreased $1.7 million, or 44 percent, from the prior year second quarter which included a FDIC special assessment.

Other expenses increased $819 thousand, or 12 percent, from the prior quarter and increased $527 thousand, or 7 percent, from the prior year second quarter.

The efficiency ratio (non-interest expense / net interest income plus non-interest income) was 59 percent for the quarter, compared to 53 percent for the 2009 second quarter. The increase in the efficiency ratio from the prior year is the result of the increase in other expenses primarily from other real estate owned expenses, losses and write-downs.

**Provision for Loan Losses**

The current quarter provision for loan loss expense was $17.2 million, a decrease of $3.7 million from prior quarter and a decrease of $7.9 million from the same quarter in 2009. Net charged-off loans for the current quarter were $19.2 million compared to $20.2 million for the prior quarter and $11.5 million for the same quarter in 2009.

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

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**Results of Operations The six months ended June 30, 2010**
**Compared to the six months ended June 30, 2009**

**Performance Summary**

Net earnings for the six months ended June 30, 2010 were $23.3 million, which is a decrease of $3.1 million or 12 percent, over the prior year. Diluted earnings per share of $0.35 is a decrease of 19 percent over $0.43 earned in the first half of 2009.

**Revenue Summary**

| | Six Months ended | | | |
|---|---|---|---|---|
| | June 30, | June 30, | $ | % |
| (Unaudited - Dollars in thousands) | 2010 | 2009 | Change | Change |
| Net interest income | | | | |
| Interest income | $ 147,216 | $ 149,952 | $ (2,736) | -2% |
| Interest expense | 27,633 | 29,093 | (1,460) | -5% |
| Total net interest income | 119,583 | 120,859 | (1,276) | -1% |
| Non-interest income | | | | |
| Service charges, loan fees, and other fees | 22,546 | 21,556 | 990 | 5% |
| Gain on sale of loans | 10,024 | 15,221 | (5,197) | -34% |
| Gain on sale of investments | 556 | | 556 | n/m |
| Other income | 4,475 | 1,918 | 2,557 | 133% |
| Total non-interest income | 37,601 | 38,695 | (1,094) | -3% |
| | $ 157,184 | $ 159,554 | $ (2,370) | -1% |
| Net interest margin (tax-equivalent) | 4.39% | 4.90% | | |

**Net Interest Income**

Net interest income for the six month period decreased $1.3 million, or 1 percent, over the same period in 2009. Total interest income decreased $2.7 million, or 2 percent, while total interest expense decreased $1.5 million, or 5 percent. The decrease in interest income is due to a lower yield and volume of loans coupled with an increase in lower yielding investment securities. The decrease in interest expense is primarily attributable to the rate decreases on interest bearing deposits and lower cost borrowings. The net interest margin as a percentage of earning assets, on a tax equivalent basis, decreased 51 basis points from 4.90 percent for 2009 to 4.39 percent for 2010.

**Non-interest Income**

Non-interest income decreased $1.1 million over the same period in 2009. Fee income for the first half of 2010 has increased $990 thousand, or 5 percent, compared to prior year primarily from an increase in debit card income. Gain on sale of loans decreased $5.2 million, or 34 percent, over the first six months of last year, primarily the result of a significant reduction in re-finance activity and a slowing of residential loans originated and sold in the secondary market. Other income increased $2.6 million over the same period in 2009, of which $1.8 million relates to the current quarter sale of Mountain West s merchant card servicing portfolio.

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**Non-interest Expense**

| (Unaudited - Dollars in thousands) | Six Months ended June 30, 2010 | June 30, 2009 | $ Change | % Change |
|---|---|---|---|---|
| Compensation and employee benefits | $ 43,008 | $ 42,654 | $ 354 | 1% |
| Occupancy and equipment expense | 11,936 | 11,506 | 430 | 4% |
| Advertising and promotions | 3,236 | 3,446 | (210) | -6% |
| Outsourced data processing | 1,455 | 1,351 | 104 | 8% |
| Core deposit intangibles amortization | 1,621 | 1,536 | 85 | 6% |
| Other real estate owned expense | 9,691 | 2,841 | 6,850 | 241% |
| Federal Deposit Insurance Corporation premiums | 4,365 | 5,000 | (635) | -13% |
| Other expenses | 14,885 | 14,255 | 630 | 4% |
| Total non-interest expense | $ 90,197 | $ 82,589 | $ 7,608 | 9% |

Non-interest expense for the first six month of 2010 increased by $7.6 million, or 9 percent, from the same period prior year. Compensation and employee benefits increased $354 thousand, or 1 percent, from 2009. Occupancy and equipment expense increased $430 thousand, or 4 percent, reflecting the cost of additional locations and facility upgrades. Advertising and promotion expense decreased by $210 thousand, or 6 percent, from 2009. Other real estate owned expense increased $6.9 million, or 241 percent, from the prior first six months. The other real estate owned expenses for the first six months of 2010 of $9.7 million included $2.2 million of operating expenses, $3.3 million of fair value write-downs, and $4.2 of loss on sale of other real estate owned. FDIC premiums decreased $635 thousand, or 13 percent, from the prior year first six months which included a special assessment of $2.5 million. Other expense increased $630 thousand, or 4 percent, from the prior year.

The efficiency ratio (non-interest expense / net interest income plus non-interest income) was 57 percent for the first six months of 2010, compared to 52 percent for the same period in 2009. The increase in the efficiency ratio from the prior year is the result of the increase in other expenses primarily from other real estate owned expenses, losses and write-downs.

**Provision for Loan Losses**

The provision for loan loss expense was $38.2 million for the first six months of 2010, a decrease of $2.7 million, or 7 percent, from the same period in 2009. Net charged-off loans during the six months ended June 30, 2010 was $39.4 million, an increase of $19.2 million from the same period in 2009.

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**Financial Condition Analysis**
**Assets**

| (Unaudited - Dollars in thousands) | June 30, 2010 | December 31, 2009 | June 30, 2009 | $ Change from December 31, 2009 | $ Change from June 30, 2009 |
|---|---|---|---|---|---|
| Cash on hand and in banks | $ 95,603 | 120,731 | 100,773 | (25,128) | (5,170) |
| Investments, interest bearing deposits, FHLB stock, FRB stock, and fed funds | 1,816,133 | 1,596,238 | 1,081,160 | 219,895 | 734,973 |
| Loans | | | | | |
| Residential real estate | 764,286 | 797,626 | 836,917 | (33,340) | (72,631) |
| Commercial | 2,570,140 | 2,613,218 | 2,591,149 | (43,078) | (21,009) |
| Consumer and other | 697,743 | 719,401 | 700,693 | (21,658) | (2,950) |
| Loans receivable, gross | 4,032,169 | 4,130,245 | 4,128,759 | (98,076) | (96,590) |
| Allowance for loan and lease losses | (141,665) | (142,927) | (97,374) | 1,262 | (44,291) |
| Loans receivable, net | 3,890,504 | 3,987,318 | 4,031,385 | (96,814) | (140,881) |
| Other assets | 492,596 | 487,508 | 425,106 | 5,088 | 67,490 |
| Total assets | $ 6,294,836 | 6,191,795 | 5,638,424 | 103,041 | 656,412 |

Total assets at June 30 2010 were $6.295 billion, which is $103 million, or 2 percent, greater than total assets of $6.192 billion at December 31, 2009. Total assets increased $656 million, or 12 percent, from June 30, 2009, of which $272 million, including $161 million in loans, related to the acquisition of First National in October 2009.
Investment securities, including interest bearing deposits, FHLB and FRB stock, and federal funds sold, have increased $220 million, or 14 percent, from December 31, 2009 and increased $735 million, or 68 percent, from June 30, 2009. The Company continues to purchase investment securities as loan originations slow, such purchases are predominately mortgage-backed securities issued by Freddie Mac and Fannie Mae with short weighted average lives. The Company continues to be very selective in its purchases of tax-exempt investment securities. Investment securities represent 29 percent of total assets at June 30, 2010 versus 19 percent of total assets at June 30, 2009.
At June 30, 2010, gross loans were $4.032 billion, a decrease of $98 million over gross loans of $4.130 billion at December 31, 2009. Excluding net charge-offs of $39 million and loans transferred to other real estate of $46 million, loans decreased $13 million, or 1 percent annualized, from December 31, 2009.
**Liabilities**

| (Unaudited - Dollars in thousands) | June 30, 2010 | December 31, 2009 | June 30, 2009 | $ Change from December 31, 2009 | $ Change from June 30, 2009 |
|---|---|---|---|---|---|
| Non-interest bearing deposits | $ 852,121 | 810,550 | 754,844 | 41,571 | 97,277 |
| Interest bearing deposits | 3,657,995 | 3,289,602 | 2,631,599 | 368,393 | 1,026,396 |
| Federal Home Loan Bank advances | 529,982 | 790,367 | 613,478 | (260,385) | (83,496) |
| Federal Reserve Bank discount window | | 225,000 | 587,000 | (225,000) | (587,000) |

| | | | | | |
|---|---|---|---|---|---|
| Securities sold under agreements to repurchase and other borrowed funds | 234,460 | 226,251 | 197,971 | 8,209 | 36,489 |
| Other liabilities | 49,470 | 39,147 | 43,711 | 10,323 | 5,759 |
| Subordinated debentures | 125,060 | 124,988 | 120,157 | 72 | 4,903 |
| Total liabilities | $ 5,449,088 | 5,505,905 | 4,948,760 | (56,817) | 500,328 |

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As of June 30, 2010, non-interest bearing deposits increased $42 million, or 10 percent annualized, since December 31, 2009 and increased $97 million, or 13 percent, since June 30, 2009. Interest bearing deposits of $3.658 billion at June 30, 2010 includes $414 million issued through the Certificate of Deposit Account Registry System. Interest bearing deposits increased $368 million, or 22 percent annualized, from December 31, 2009 and $1.026 billion, or 39 percent from June 30, 2009. The increase in interest bearing deposits from December 31, 2009 and June 30, 2009 includes $308 million and $507 million, respectively, from wholesale deposits. The increase in non-interest bearing deposits and interest bearing deposits from June 30, 2009 includes $39 million and $197 million, respectively, from the First National acquisition.

As a result of the deposit growth, borrowings overall have been reduced. FHLB advances decreased $260 million, or 33 percent, from December 31, 2009 and decreased $83 million, or 14 percent, from June 30, 2009. There were no Federal Reserve Bank borrowings through the Term Auction Facility program ( TAF ) at June 30, 2010 due to cessation of the TAF program by the Federal Reserve. TAF borrowings totaled $225 million at December 31, 2009 and $587 million at June 30, 2009. Repurchase agreements and other borrowed funds were $234 million at June 30, 2010, an increase of $8 million from December 31, 2009 and an increase of $36 million from June 30, 2009.

**Stockholders Equity**

| Unaudited - Dollars in thousands, except per share data) | June 30, 2010 | December 31, 2009 | June 30, 2009 | $ Change from December 31, 2009 | $ Change from June 30, 2009 |
|---|---|---|---|---|---|
| Common equity | $ 836,955 | 686,238 | 692,046 | 150,717 | 144,909 |
| Accumulated other comprehensive gain (loss) | 8,793 | (348) | (2,382) | 9,141 | 11,175 |
| Total stockholders equity | 845,748 | 685,890 | 689,664 | 159,858 | 156,084 |
| Goodwill and core deposit intangible, net | (158,575) | (160,196) | (157,736) | 1,621 | (839) |
| Tangible stockholders equity | $ 687,173 | 525,694 | 531,928 | 161,479 | 155,245 |
| Stockholders equity to total assets | 13.44% | 11.08% | 12.23% | | |
| Tangible stockholders equity to total tangible assets | 11.20% | 8.72% | 9.71% | | |
| Book value per common share | $ 11.76 | 11.13 | 11.21 | 0.63 | 0.55 |
| Tangible book value per common share | $ 9.56 | 8.53 | 8.65 | 1.03 | 0.91 |
| Market price per share at end of year | $ 14.67 | 13.72 | 14.77 | 0.95 | (0.10) |

Total stockholders equity and book value per share increased $156 million and $0.55 per share, respectively, from June 30, 2009, such increases largely the result of the $146 million in net proceeds from the Company s March equity offering of 10.291 million shares. Tangible stockholders equity has increased $155 million, or 29 percent, since June 30, 2009, with tangible stockholders equity to tangible assets at 11.20 percent and 9.71 percent as of June 30, 2010 and June 30, 2009, respectively. Accumulated other comprehensive income (loss), representing net unrealized gains or losses (net of tax) on investment securities, increased $9.1 million since December 31, 2009 and $11.2 million from June 30, 2009.

On June 30, 2010, the board of directors declared a cash dividend of $0.13 per share, payable July 22, 2010 to shareholders of record on July 13, 2010. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality and general economic conditions.

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**Additional Management s Discussion and Analysis**

**Loan Portfolio**

The following tables summarize selected information by regulatory classification on the Company s loan portfolio:

| | Loans Receivable, Gross by Bank | | | % Change from | % Change from |
|---|---|---|---|---|---|
| (Dollars in thousands) | Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | 12/31/09 | 6/30/09 |
| Glacier | $ 893,809 | 942,254 | 965,399 | -5% | -7% |
| Mountain West | 916,582 | 957,451 | 989,371 | -4% | -7% |
| First Security | 577,795 | 566,713 | 581,908 | 2% | -1% |
| 1st Bank | 283,825 | 296,913 | 314,755 | -4% | -10% |
| Western | 316,893 | 323,375 | 349,150 | -2% | -9% |
| Big Sky | 266,540 | 270,970 | 285,515 | -2% | -7% |
| Valley | 194,521 | 187,283 | 195,662 | 4% | -1% |
| First National | 152,970 | 153,058 | | 0% | n/m |
| Citizens | 168,406 | 166,049 | 169,507 | 1% | -1% |
| First Bank-MT | 116,920 | 117,017 | 125,184 | 0% | -7% |
| San Juans | 147,721 | 149,162 | 152,308 | -1% | -3% |
| Eliminations | (3,813) | | | n/m | n/m |
| Total | $ 4,032,169 | 4,130,245 | 4,128,759 | -2% | -2% |

| | Land, Lot and Other Construction Loans by Bank | | | % Change from | % Change from |
|---|---|---|---|---|---|
| (Dollars in thousands) | Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | 12/31/09 | 6/30/09 |
| Glacier | $ 150,723 | 165,734 | 196,140 | -9% | -23% |
| Mountain West | 190,060 | 217,078 | 254,625 | -12% | -25% |
| First Security | 78,218 | 71,404 | 83,013 | 10% | -6% |
| 1st Bank | 30,800 | 36,888 | 41,784 | -17% | -26% |
| Western | 31,056 | 32,045 | 38,554 | -3% | -19% |
| Big Sky | 64,739 | 71,365 | 74,240 | -9% | -13% |
| Valley | 13,622 | 14,704 | 17,140 | -7% | -21% |
| First National | 13,184 | 10,247 | | 29% | n/m |
| Citizens | 13,034 | 13,263 | 22,145 | -2% | -41% |
| First Bank-MT | 808 | 1,010 | 5,208 | -20% | -84% |
| San Juans | 32,286 | 39,621 | 33,923 | -19% | -5% |
| Total | $ 618,530 | 673,359 | 766,772 | -8% | -19% |

| | Land, Lot and Other Construction Loans by Bank, by Type at 6/30/10 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Land Development | Consumer Land or Lot | Unimproved Land | Developed Lots for Operative Builders | Commercial Developed Lot | Other Construction |
| Glacier | $ 62,805 | 30,739 | 30,565 | 9,198 | 17,416 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mountain West | 49,542 | 68,580 | 20,511 | 25,500 | 8,775 | 17,152 |
| First Security | 28,358 | 7,079 | 24,114 | 4,685 | 502 | 13,480 |
| 1st Bank | 8,130 | 11,636 | 4,007 | 221 | 2,536 | 4,270 |
| Western | 15,669 | 6,129 | 4,805 | 587 | 2,022 | 1,844 |
| Big Sky | 21,563 | 17,856 | 10,115 | 1,192 | 2,546 | 11,467 |
| Valley | 2,273 | 5,582 | 1,225 | 106 | 3,310 | 1,126 |
| First National | 2,464 | 3,622 | 1,469 | 578 | 2,159 | 2,892 |
| Citizens | 2,934 | 2,517 | 2,602 | 50 | 660 | 4,271 |
| First Bank-MT | | 57 | 751 | | | |
| San Juans | 4,125 | 17,033 | 2,216 | | 8,211 | 701 |
| Total | $ 197,863 | 170,830 | 102,380 | 42,117 | 48,137 | 57,203 |

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| (Dollars in thousands) | Residential Construction Loans by Bank, by Type Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | % Change from 12/31/09 | % Change from 6/30/09 | Custom & Owner Occupied 6/30/10 | Pre-Sold & Spec 6/30/10 |
|---|---|---|---|---|---|---|---|
| Glacier | $ 45,722 | 57,183 | 79,887 | -20% | -43% | $ 8,799 | 36,923 |
| Mountain West | 23,997 | 57,437 | 80,356 | -58% | -70% | 6,614 | 17,383 |
| First Security | 14,600 | 19,664 | 17,991 | -26% | -19% | 5,911 | 8,689 |
| 1st Bank | 12,272 | 17,633 | 23,080 | -30% | -47% | 8,419 | 3,853 |
| Western | 1,795 | 2,245 | 3,399 | -20% | -47% | 1,136 | 659 |
| Big Sky | 16,875 | 20,679 | 31,421 | -18% | -46% | 790 | 16,085 |
| Valley | 5,595 | 5,170 | 5,267 | 8% | 6% | 4,369 | 1,226 |
| First National | 2,607 | 2,612 | | 0% | n/m | 1,290 | 1,317 |
| Citizens | 10,994 | 13,211 | 17,106 | -17% | -36% | 5,247 | 5,747 |
| First Bank-MT | 178 | 234 | | -24% | n/m | 178 | |
| San Juans | 7,095 | 13,811 | 12,898 | -49% | -45% | 6,286 | 809 |
| Total | $ 141,730 | 209,879 | 271,405 | -32% | -48% | $ 49,039 | 92,691 |

| (Dollars in thousands) | Single Family Residential Loans by Bank, by Type Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | % Change from 12/31/09 | % Change from 6/30/09 | 1st Lien 6/30/10 | Junior Lien 6/30/10 |
|---|---|---|---|---|---|---|---|
| Glacier | $ 187,625 | 204,789 | 201,281 | -8% | -7% | $ 165,262 | 22,363 |
| Mountain West | 296,102 | 278,158 | 282,957 | 6% | 5% | 255,884 | 40,218 |
| First Security | 86,963 | 82,141 | 86,958 | 6% | 0% | 73,355 | 13,608 |
| 1st Bank | 59,292 | 65,555 | 65,365 | -10% | -9% | 54,750 | 4,542 |
| Western | 47,532 | 50,502 | 59,511 | -6% | -20% | 45,525 | 2,007 |
| Big Sky | 32,216 | 33,308 | 32,473 | -3% | -1% | 28,272 | 3,944 |
| Valley | 66,055 | 66,644 | 71,680 | -1% | -8% | 54,529 | 11,526 |
| First National | 15,080 | 19,239 | | -22% | n/m | 11,530 | 3,550 |
| Citizens | 20,039 | 20,937 | 18,096 | -4% | 11% | 17,851 | 2,188 |
| First Bank-MT | 9,818 | 10,003 | 11,231 | -2% | -13% | 8,515 | 1,303 |
| San Juans | 30,153 | 22,811 | 25,574 | 32% | 18% | 28,804 | 1,349 |
| Total | $ 850,875 | 854,087 | 855,126 | 0% | 0% | $ 744,277 | 106,598 |

| (Dollars in thousands) | Commercial Real Estate Loans by Bank, by Type Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | % Change from 12/31/09 | % Change from 6/30/09 | Owner Occupied 6/30/10 | Non-Owner Occupied 6/30/10 |
|---|---|---|---|---|---|---|---|
| Glacier | $ 230,976 | 232,552 | 221,505 | -1% | 4% | $ 115,525 | 115,451 |
| Mountain West | 222,414 | 230,383 | 199,589 | -3% | 11% | 147,120 | 75,294 |
| First Security | 221,257 | 224,425 | 208,907 | -1% | 6% | 146,676 | 74,581 |
| 1st Bank | 64,158 | 64,008 | 69,999 | 0% | -8% | 46,997 | 17,161 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Western | 105,377 | 107,173 | 103,434 | -2% | 2% | 54,219 | 51,158 |
| Big Sky | 86,114 | 82,303 | 80,069 | 5% | 8% | 55,483 | 30,631 |
| Valley | 51,239 | 48,144 | 47,291 | 6% | 8% | 33,950 | 17,289 |
| First National | 28,808 | 26,703 | | 8% | n/m | 22,713 | 6,095 |
| Citizens | 58,507 | 55,660 | 53,425 | 5% | 10% | 44,609 | 13,898 |
| First Bank-MT | 17,254 | 18,827 | 17,057 | -8% | 1% | 11,276 | 5,978 |
| San Juans | 52,423 | 47,838 | 55,952 | 10% | -6% | 28,321 | 24,102 |
| Total | $ 1,138,527 | 1,138,016 | 1,057,228 | 0% | 8% | $ 706,889 | 431,638 |

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| (Dollars in thousands) | Consumer Loans by Bank, by Type Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | % Change from 12/31/09 | % Change from 6/30/09 | Home Equity Line of Credit 6/30/10 | Other Consumer 6/30/10 |
|---|---|---|---|---|---|---|---|
| Glacier | $ 158,088 | 162,723 | 161,048 | -3% | -2% | $ 142,223 | 15,865 |
| Mountain West | 72,284 | 71,702 | 71,042 | 1% | 2% | 62,744 | 9,540 |
| First Security | 77,140 | 78,345 | 80,574 | -2% | -4% | 50,333 | 26,807 |
| 1st Bank | 41,985 | 46,455 | 46,583 | -10% | -10% | 16,322 | 25,663 |
| Western | 46,001 | 48,946 | 50,384 | -6% | -9% | 31,970 | 14,031 |
| Big Sky | 28,475 | 28,903 | 28,882 | -1% | -1% | 25,191 | 3,284 |
| Valley | 24,445 | 24,625 | 25,798 | -1% | -5% | 15,248 | 9,197 |
| First National | 26,263 | 27,320 | | -4% | n/m | 16,772 | 9,491 |
| Citizens | 30,613 | 29,253 | 28,958 | 5% | 6% | 24,113 | 6,500 |
| First Bank-MT | 7,834 | 7,650 | 5,920 | 2% | 32% | 3,847 | 3,987 |
| San Juans | 14,463 | 14,189 | 14,618 | 2% | -1% | 13,215 | 1,248 |
| Total | $ 527,591 | 540,111 | 513,807 | -2% | 3% | $ 401,978 | 125,613 |

n/m not measurable

**Allowance for Loan and Lease Losses**

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

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

At the end of each quarter, each of the community bank subsidiaries analyzes its loan and lease portfolio and maintain an ALLL at a level that is appropriate and determined in accordance with accounting principles generally accepted in the United States of America. The ALLL balance covers estimated credit losses on individually evaluated loans, including those which are determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolios. Each of the Bank s ALLL is considered adequate to absorb losses from any segment of its loan and lease portfolio.

The Company is committed to a conservative management of the credit risk within the loan and lease portfolios, including the early recognition of problem loans. The Company s credit risk management includes stringent credit policies, individual loan approval limits, limits on concentrations of credit, and committee approval of larger loan requests. Management practices also include regular internal and external credit examinations, identification and review of individual loans and leases experiencing deterioration of credit quality, procedures for the collection of

non-performing assets, quarterly monitoring of the loan and lease portfolios, semi-annual review of loans by industry, and periodic stress testing of the loans secured by real estate.

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The Company s model of eleven wholly-owned, independent community banks, each with its own loan committee, chief credit officer and Board of Directors, provides substantial local oversight to the lending and credit management function. Unlike a traditional, single-bank holding company, the Company s decentralized business model affords multiple reviews of larger loans before credit is extended, a significant benefit in mitigating and managing the Company s credit risk. The geographic dispersion of the market areas in which the Company and the community bank subsidiaries operate further mitigates the risk of credit loss. While this process is intended to limit credit exposure, there can be no assurance that further problem credits will not arise and additional loan losses incurred, particularly in periods of rapid economic downturns.

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

The Company considers the ALLL balance of $141.7 million adequate to cover inherent losses in the loan and lease portfolios as of June 30, 2010. However, no assurance can be given that the Company will not, in any particular period, sustain losses that are significant relative to the amount reserved, or that subsequent evaluations of the loan and lease portfolios applying management s judgment about then current factors, including economic and regulatory developments, will not require significant changes in the ALLL. Under such circumstances, this could result in enhanced provisions for loan losses. See additional risk factors in Part II, ITEM 1A. Risk Factors.

The following table summarizes the allocation of the ALLL:

| | June 30, 2010 | | December 31, 2009 | | June 30, 2009 | |
|---|---|---|---|---|---|---|
| (Unaudited - Dollars in thousands) | Allowance for Loan and Lease Losses | Percent of Loans in Category | Allowance for Loan and Lease Losses | Percent of Loans in Category | Allowance for Loan and Lease Losses | Percent of Loans in Category |
| Residential real estate | $ 12,400 | 19.0% | 13,496 | 19.6% | 8,790 | 20.3% |
| Commercial real estate | 64,466 | 46.6% | 66,791 | 45.9% | 45,632 | 47.0% |
| Other commercial | 41,884 | 17.1% | 39,558 | 17.5% | 26,871 | 15.7% |
| Consumer and other loans | 22,915 | 17.3% | 23,082 | 17.0% | 16,081 | 17.0% |
| Totals | $ 141,665 | 100.0% | 142,927 | 100.0% | 97,374 | 100.0% |

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The following tables summarize the ALLL experience at the dates indicated, including breakouts by regulatory and bank subsidiary classification:

| (Unaudited - Dollars in thousands) | Six Months ended June 30, 2010 | Year ended December 31, 2009 | Six Months ended June 30, 2009 |
|---|---|---|---|
| Balance at beginning of period | $ 142,927 | 76,739 | 76,739 |
| Charge-offs | | | |
| Residential real estate | (8,864) | (18,854) | (4,881) |
| Commercial loans | (28,935) | (35,077) | (14,002) |
| Consumer and other loans | (3,785) | (6,965) | (2,363) |
| Total charge-offs | (41,584) | (60,896) | (21,246) |
| Recoveries | | | |
| Residential real estate | 333 | 423 | 287 |
| Commercial loans | 1,627 | 1,636 | 504 |
| Consumer and other loans | 206 | 407 | 235 |
| Total recoveries | 2,166 | 2,466 | 1,026 |
| Charge-offs, net of recoveries | (39,418) | (58,430) | (20,220) |
| Provision for loan losses | 38,156 | 124,618 | 40,855 |
| Balance at end of period | $ 141,665 | 142,927 | 97,374 |
| Allowance for loan and lease losses as a percentage of total loan and leases | 3.51% | 3.46% | 2.36% |
| Net charge-offs as a percentage of total loans | 0.98% | 1.42% | 0.49% |

| | Allowance for Loan and Lease Losses | | | Provision for | Provision for the Year-to-Date Ended | ALLL as a |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | Year-to-Date Ended 6/30/10 | 6/30/10 Over Net Charge-Offs | Percent of Loans 6/30/10 |
| Glacier | $ 37,817 | 38,978 | 28,765 | 15,300 | 0.9 | 4.23% |
| Mountain West | 30,832 | 37,551 | 20,406 | 9,500 | 0.6 | 3.36% |
| First Security | 20,252 | 18,242 | 13,078 | 4,400 | 1.8 | 3.51% |
| 1st Bank | 11,351 | 10,895 | 8,171 | 1,450 | 1.5 | 4.00% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Western | 8,707 | 8,762 | 7,046 | 550 | 0.9 | 2.75% |
| Big Sky | 11,511 | 10,536 | 6,852 | 2,900 | 1.5 | 4.32% |
| Valley | 4,707 | 4,367 | 4,047 | 450 | 4.1 | 2.42% |
| First National | 2,565 | 1,679 | | 1,241 | 3.5 | 1.68% |
| Citizens | 6,120 | 4,865 | 3,647 | 1,500 | 6.1 | 3.63% |
| First Bank MT | 3,067 | 2,904 | 2,405 | 265 | 2.6 | 2.62% |
| San Juans | 4,736 | 4,148 | 2,957 | 600 | 50.0 | 3.21% |
| Total | $ 141,665 | 142,927 | 97,374 | 38,156 | 1.0 | 3.51% |

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Net Charge-Offs, Year-to-Date Period Ending, By Bank

| (Dollars in thousands) | Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | Charge-Offs 6/30/10 | Recoveries 6/30/10 |
|---|---|---|---|---|---|
| Glacier | $ 16,461 | 12,012 | 2,725 | 16,796 | 335 |
| Mountain West | 16,219 | 28,931 | 7,576 | 16,586 | 367 |
| First Security | 2,390 | 3,745 | 834 | 3,248 | 858 |
| 1st Bank | 994 | 5,917 | 4,641 | 1,400 | 406 |
| Western | 605 | 1,500 | 1,416 | 682 | 77 |
| Big Sky | 1,925 | 4,896 | 2,580 | 1,981 | 56 |
| Valley | 110 | 414 | 134 | 117 | 7 |
| First National | 355 | 4 | | 358 | 3 |
| Citizens | 245 | 656 | 174 | 250 | 5 |
| First Bank-MT | 102 | 26 | | 104 | 2 |
| San Juans | 12 | 329 | 140 | 62 | 50 |
| Total | $ 39,418 | 58,430 | 20,220 | 41,584 | 2,166 |

Net Charge-Offs (Recoveries), Year-to-Date Period Ending, By Loan Type

| (Dollars in thousands) | Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | Charge-Offs 6/30/10 | Recoveries 6/30/10 |
|---|---|---|---|---|---|
| Residential construction | $ 4,228 | 13,455 | 3,536 | 4,324 | 96 |
| Land, lot and other construction | 21,077 | 28,310 | 11,561 | 22,001 | 924 |
| Commercial real estate | 3,267 | 1,187 | 513 | 3,396 | 129 |
| Commercial and industrial | 3,192 | 3,610 | 1,396 | 3,744 | 552 |
| 1-4 family | 4,998 | 7,242 | 1,960 | 5,218 | 220 |
| Home equity lines of credit | 2,302 | 2,357 | 581 | 2,324 | 22 |
| Consumer | 393 | 1,895 | 647 | 559 | 166 |
| Other | (39) | 374 | 26 | 18 | 57 |
| Total | $ 39,418 | 58,430 | 20,220 | 41,584 | 2,166 |

The ALLL has decreased slightly during the first six months of 2010 compared to the large increases during 2009, primarily due to the slowing pace of the non-performing assets since December 31, 2009.

At June 30, 2010, the allowance for loan and lease losses was $141.7 million, an increase of $44.3 million, or 45 percent, from a year ago. The allowance was 3.51 percent of total loans outstanding at June 30, 2010, such percentage down slightly from the 3.53 percent at March 31, 2010, but substantially higher than the 2.36 percent at June 30, 2009. Loan portfolio growth, composition, average loan size, credit quality considerations, and other environmental factors will continue to determine the level of additional provision for loan loss expense.

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

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**Non-performing Assets**

The following tables summarize information regarding non-performing assets at the dates indicated, including breakouts by regulatory and bank subsidiary classification:

| (Unaudited - Dollars in thousands) | June 30, 2010 | December 31, 2009 | June 30, 2009 |
|---|---|---|---|
| Non-accrual loans | | | |
| Residential real estate | $ 24,075 | 20,093 | 17,019 |
| Commercial | 160,058 | 168,328 | 93,305 |
| Consumer and other | 6,205 | 9,860 | 6,038 |
| Total | 190,338 | 198,281 | 116,362 |
| Accruing loans 90 days or more overdue | | | |
| Residential real estate | 885 | 1,965 | 3,060 |
| Commercial | 1,953 | 1,311 | 6,219 |
| Consumer and other | 192 | 2,261 | 807 |
| Total | 3,030 | 5,537 | 10,086 |
| Other real estate owned | 64,419 | 57,320 | 47,424 |
| Total non-performing loans and real estate and other assets owned | $ 257,787 | 261,138 | 173,872 |
| Allowance for loan and lease losses as a percentage of non-performing assets | 55% | 55% | 56% |
| Non-performing assets as a percentage of total subsidiary assets | 4.01% | 4.13% | 3.06% |
| Accruing loans 30-89 days overdue | $ 36,487 | 87,491 | 62,637 |
| Interest income [1] | $ 5,463 | 11,730 | 3,459 |

[1] Amounts represent estimated interest income that would have been recognized on loans accounted for on a non-accrual basis for the six months ended June 30, 2010, year ended December 31, 2009 and six

months ended June 30, 2009 had such loans performed pursuant to contractual terms.

| | Non-performing Assets, by Loan Type | | | Non-Accruing | Accruing Loans 90 Days or More | Other Real Estate |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | Loans 6/30/10 | Overdue 6/30/10 | Owned 6/30/10 |
| Custom and owner occupied construction | $ 2,448 | 3,281 | 1,929 | 1,200 | | 1,248 |
| Pre-sold and spec construction | 21,486 | 29,580 | 31,879 | 18,612 | 196 | 2,678 |
| Land development | 84,632 | 88,488 | 52,583 | 58,696 | | 25,936 |
| Consumer land or lots | 12,475 | 10,120 | 7,696 | 8,059 | 307 | 4,109 |
| Unimproved land | 36,211 | 32,453 | 24,212 | 19,679 | 505 | 16,027 |
| Developed lots for operative builders | 9,788 | 11,565 | 5,690 | 7,609 | | 2,179 |
| Commercial lots | 1,481 | 909 | 223 | 1,445 | | 36 |
| Other construction | 3,485 | | 20 | 3,485 | | |
| Commercial real estate | 35,354 | 32,300 | 14,561 | 29,280 | 927 | 5,147 |
| Commercial and industrial | 11,645 | 12,271 | 7,523 | 11,311 | 313 | 21 |
| Agriculture loans | 5,744 | 283 | 572 | 5,327 | 12 | 405 |
| Municipal loans | | | | | | |
| 1-4 family | 26,648 | 30,868 | 20,953 | 20,198 | 607 | 5,843 |
| Home equity lines of credit | 5,453 | 6,234 | 4,730 | 4,805 | 100 | 548 |
| Consumer | 651 | 1,042 | 940 | 346 | 63 | 242 |
| Other | 286 | 1,744 | 361 | 286 | | |
| Total | $ 257,787 | 261,138 | 173,872 | 190,338 | 3,030 | 64,419 |

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| | Accruing 30-89 Days Delinquent Loans and Non-Performing Assets, by Bank | | | Accruing 30-89 Days | Non-Accrual & Accruing Loans 90 Days or More | Other Real Estate |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Balance 6/30/10 | Balance 12/31/09 | Balance 6/30/09 | Overdue 6/30/10 | Overdue 6/30/10 | Owned 6/30/10 |
| Glacier | $ 75,527 | 97,666 | 72,590 | 5,615 | 64,436 | 5,476 |
| Mountain West | 68,613 | 109,187 | 51,813 | 2,870 | 63,583 | 2,160 |
| First Security | 57,039 | 59,351 | 48,267 | 14,167 | 29,703 | 13,169 |
| 1st Bank | 19,833 | 21,117 | 20,642 | 3,799 | 5,209 | 10,825 |
| Western | 5,757 | 9,315 | 6,972 | 666 | 1,175 | 3,916 |
| Big Sky | 26,854 | 31,711 | 24,769 | 4,064 | 14,778 | 8,012 |
| Valley | 2,131 | 2,542 | 1,547 | 637 | 1,212 | 282 |
| First National | 10,135 | 9,290 | | 1,167 | 8,968 | |
| Citizens | 5,625 | 5,340 | 7,319 | 1,670 | 2,180 | 1,775 |
| First Bank MT | 554 | 800 | 265 | 126 | 324 | 104 |
| San Juans | 3,902 | 2,310 | 2,325 | 1,706 | 1,800 | 396 |
| GORE | 18,304 | | | | | 18,304 |
| Total | $ 294,274 | 348,629 | 236,509 | 36,487 | 193,368 | 64,419 |

The allowance was 55 percent of non-performing assets at June 30, 2010, the same percentage at the prior year end and down from 56 percent a year ago. Non-performing assets as a percentage of total subsidiary assets at June 30, 2010 were at 4.01 percent, down from 4.13 percent as of prior year end, and up from 3.06 percent at June 30, 2009. Each bank subsidiary evaluates the level of its non-performing assets, the values of the underlying real estate and other collateral, and related trends in net charge-offs. Through pro-active credit administration, the Banks work closely with borrowers to seek favorable resolution to the extent possible, thereby attempting to minimize net charge-offs or losses to the Company.

Most of the Company s non-performing assets are secured by real estate and, based on the most current information available to management, including updated appraisals where appropriate, the Company believes the value of the underlying real estate collateral is adequate to minimize significant charge-offs or loss to the Company.

Loans are designated non-accrual and the accrual of interest is discontinued when the collection of the contractual principal or interest is unlikely. A loan is typically placed on non-accrual when principal or interest is due and has remained unpaid for ninety days or more unless the loan is in process of collection and well-secured by collateral the fair value of which is sufficient to pay off the debt in full. When a loan is placed on non-accrual status, interest previously accrued but not collected is reversed against current period interest income. Subsequent payments are applied to the outstanding principal balance if doubt remains as to the ultimate collectability of the loan. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Loans are designated impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The amount of the impairment is measured using cash flows discounted at the loan s effective interest rate, except when it is determined that repayment of the loan is expected to be provided solely by the underlying collateral. For collateral dependent loans, impairment is measured by the fair value of the collateral less the cost to sell. When the ultimate collectability of the total principal of an impaired loan is in doubt and designated as

non-accrual, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal on an impaired loan is not in doubt, contractual interest is generally credited to interest income when received under the cash basis method. Total interest income recognized for impaired loans under the cash basis for the six months ended June 30, 2010 and 2009 was not significant. Impaired loans were $216.9 million and $140.1 million as of June 30, 2010 and 2009, respectively. The ALLL includes valuation allowances of $15.2 million and $9.0 million specific to impaired loans as of June 30, 2010 and 2009, respectively.

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A restructured loan is considered a troubled debt restructuring if the creditor, for economic or legal reasons related to the debtor s financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company s troubled debt restructuring loans are considered impaired loans. The Company had troubled debt restructuring loans of $53.2 million as of June 30, 2010.

**Income Tax Expense**

Income tax expense for the six months ended June 30, 2010 and 2009 was $5.5 million and $9.7 million, respectively. The Company s effective tax rate for the six months ended June 30, 2010 and 2009 was 19.2 percent and 26.8 percent, respectively. The primary reasons for the low and decreasing effective yields are the amount of tax-exempt investment income and federal tax credits. The tax-exempt income was $11.4 million and $11.1 million for the six months ended June 30, 2010 and 2009, respectively. The net federal tax credits were $1.5 million and $275 thousand for the six months ended June 30, 2010 and 2009, respectively. The Company continues to invest in select municipal securities and various programs whereby the Company receives federal tax credits and therefore the Company expects to maintain a moderate amount of tax-exempt items. For additional information on income taxes see Note 11, *Federal and State Income Taxes,* in ITEM 1. Financial Statements.

**Other-Than-Temporary Impairment on Securities Accounting Policy and Analysis**

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

The Company believes that macroeconomic conditions occurring the first six months of 2010 and in 2009 have unfavorably impacted the fair value of certain debt securities in its investment portfolio. For debt securities with limited or inactive markets, the impact of these macroeconomic conditions upon fair value estimates includes higher risk-adjusted discount rates and downgrades in credit ratings provided by nationally recognized credit rating agencies, (e.g., Moody s, S&P, Fitch, and DBRS).

In evaluating equity securities for other-than-temporary impairment losses, management assesses the Company s ability and intent to retain the equity securities for a period of time sufficient to allow for anticipated recovery in fair value. Equity securities owned at June 30, 2010 primarily consisted of stock issued by the Federal Home Loan Bank and the Federal Reserve Bank, such shares are measured at cost for purposes in recognition of the transferability restrictions imposed by the issuers. In addition, the Company owns 150,000 shares of Series O preferred stock issued by Freddie Mac and 1,200 shares of common stock issued by Fannie Mae. The Freddie Mac and Fannie Mae stock had a cost basis of $0 at June 30, 2010 due to the recognition of an other-than-temporary impairment charge against earnings during 2008 for the entire amount of the Company s investment therein. The fair value of other stock in an unrealized loss position was $7 thousand, with unrealized losses of $5 thousand or 69.3 percent of fair value, at June 30, 2010.

In evaluating debt securities for other-than-temporary impairment, management assesses whether the Company intends to sell or if it is more likely-than-not that it will be required to sell impaired debt securities. In so doing, management considers contractual constraints, liquidity, capital, asset / liability management and securities portfolio objectives.

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During the first half of 2010, the Company sold 39 securities of which 34 were tax-exempt State and Local Government securities, 31 of which were sold at a gross realized gain aggregating $1.235 million, 3 of which were sold at a gross realized loss aggregating $65 thousand, a net realized gain of $1.170 million. Of the 39 securities, 5 were non-guaranteed private label whole loan mortgages, 2 of which were sold at a gross realized gain aggregating $113 thousand, 3 of which were sold at a gross realized loss aggregating $727 thousand, a net realized loss of $614 thousand. Such sales were executed with the proceeds used to buy additional investment securities such that the investment portfolio performs well across varying interest rate environments. During the first half of 2009, the Company sold no investment securities as the Company continued its then historical approach to managing the investment portfolio, i.e., to buy and hold securities to maturity, although such securities may be sold given that all of the securities held in the investment portfolio are designated as available-for-sale. During the second half of 2009, the Company sold 59 securities of which 53 were tax-exempt State and Local Government securities, 7 of which were each sold at a gross realized loss of $1.118 million and 46 of which were each sold at a gross realized gain of $3.921 million, a net realized gain of $2.804 million. Of the 59 securities sold in the second half of 2009, 6 were residential mortgage-backed securities, with such securities sold at a gross realized gain aggregating $3.191 million. Of the securities sold at a realized loss, none had previously been subject to an other-than-temporary impairment charge, and none were subject to an expectation or requirement to sell. In 2008, the Company sold only 1 security at neither gain nor loss for proceeds of $97.002 million. Such security was acquired and held for 7 days as collateral to support a borrowing at the U.S Treasury Tax and Loan program. Sales of securities in 2007 occurred with respect to entire investment portfolios of acquired banks following mergers into the Company s existing bank subsidiaries. Such sales occurred in recognition that the acquired portfolios of investments were not consistent with the Company s Investment Policy and Asset Liability Management Policy. With respect to its impaired debt securities at June 30, 2010, management determined that it does not intend to sell and that there is no expected requirement to sell any of its impaired debt securities.

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

As of June 30, 2010, there were 237 investments in an unrealized loss position and were considered to be temporarily impaired and therefore an impairment charge has not been recorded. Residential mortgage-backed securities have the largest unrealized loss. The fair value of these securities, which have underlying collateral consisting of U.S. government sponsored enterprise guaranteed mortgages and non-guaranteed private label whole loan mortgages, were $467.298 million at June 30, 2010 of which $228.091 million was purchased during 2010, the remainder of which had a fair market value of $282.853 million at December 31, 2009. For the securities purchased in 2010, there has been an unrealized loss of $1.000 million since purchase. Of the remaining residential mortgage-backed securities in a loss position, the unrealized loss decreased from 4.8 percent of fair value at December 31, 2009 to 2.8 percent of fair value at June 30, 2010. The fair value of Collateralized Debt Obligation ( CDO ) securities in an unrealized loss position is $8.828 million, with unrealized losses of $5.532 million at June 30, 2010; the unrealized loss decreased from 116.4 percent of fair value at December 31, 2009 to 62.7 percent of fair value at June 30, 2010. The fair value of State and Local Government securities in an unrealized loss position were $91.662 million at June 30, 2010 of which $21.181 million was purchased during 2010, the remainder of which had a fair market value of $70.012 million at December 31, 2009. For the securities purchased in 2010, there has been an unrealized loss of $261 thousand since purchase. Of the remaining State and Local Government securities in a loss position, the unrealized loss decreased from 3.6 percent of fair value at December 31, 2009 to 2.5 percent of fair value at June 30, 2010.

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With respect to the CDO securities, the fair value decline is primarily attributable to a single CDO structure that is a pooled trust preferred security of which the Company owns a portion of only the Senior Notes tranche. All of the assets underlying such CDO structure are capital securities issued by trust subsidiaries of holding companies of banks and thrifts. As of June 30, 2010, March 31, 2010 and December 31, 2009, the Senior Notes were rated A3 by Moody s and A by Fitch. As of the end of the second quarter of 2010, 8 of the 26 trust subsidiaries elected to defer the interest on their respective obligations underlying the CDO structure. As of the end of the first quarter of 2010 and the fourth quarter of 2009, 6 of the 26 trust subsidiaries were deferring interest compared to 3 of the 26 trust subsidiaries deferring interest on their respective obligations as of the end of the first three quarters of the 2009. In accordance with the prospectus for the CDO structure, the priority of payments favors holders of the Senior Notes over holders of the Mezzanine Notes and Income Notes. Though the maturity of the CDO structure is June 15, 2031, 17.40% of the outstanding principle of the Senior Notes has been prepaid through June 30, 2010 compared to 15.22% at March 31, 2010 and December 31, 2009. More specifically, at any time the Senior Notes are outstanding, if either the Senior Principle or Senior Interest Coverage Tests (the Senior Coverage Tests ) are not satisfied as of a calculation date, then funds that would have otherwise been used to make payments on the Mezzanine Notes or Income Notes shall instead be applied as principle prepayments on the Senior Notes. As of June 30, 2010, March 31, 2010, and December 31, 2009, the Senior Principle Coverage Test was below its threshold level, while the Senior Interest Coverage Test exceeded its threshold level. The Senior Coverage Tests exceeded the threshold levels for each of the first three quarters of 2009. In its assessment of the Senior Notes for potential other-than-temporary impairment, the Company evaluated the underlying issuers and engaged a third party vendor to stress test the performance of the underlying capital securities and related obligors. Such stress testing has been performed as of June 30, 2010, March 31, 2010, and as of the end of each of the prior four quarters in 2009, i.e., December 31, September 30, June 30 and March 31. In each instance of stress testing, the results reflect no credit loss for the Senior Notes. In evaluating such results, the Company reviewed with the third party vendor the stress test assumptions and concurred with the analyses in concluding that the impairment at June 30, 2010, March 31, 2010, and the four quarters of 2009 was temporary, and not other-than-temporary.

The Company stratified the 237 debt securities for both severity and duration of impairment. With respect to severity, the following table provides the number of securities and amount of unrealized loss in the various ranges of unrealized loss as a percent of book value.

| (Dollars in thousands) | Unrealized Loss | Number of Bonds |
|---|---|---|
| Greater than 40.0% | $ 5,475 | 7 |
| 30.1% to 40.0% | | |
| 20.1% to 30.0% | 4,153 | 5 |
| 15.1% to 20.0% | 131 | 1 |
| 10.1% to 15.0% | 1,537 | 5 |
| 5.1% to 10.0% | 562 | 4 |
| 0.1% to 5.0% | 3,430 | 215 |
| Total | $ 15,288 | 237 |

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With respect to the duration of the impaired securities, the Company identified 36 securities which have been continuously impaired for the 12 months ending June 30, 2010. The valuation history of such securities in the prior year(s) was also reviewed to determine the number of months in prior year(s) in which the identified securities was in an unrealized loss position. 18 of the 36 securities are state and local tax-exempt securities with an unrealized loss of $1,031,000, the most notable of which had an unrealized loss of $206,000. 6 of the 36 securities are CDOs with an aggregate unrealized loss of $5,472,000, the most notable of which had an unrealized loss of $1,368,000. 11 of the 36 securities are non-guaranteed private label whole loan mortgages with an aggregate unrealized loss of $5,951,000, the most notable of which had an unrealized loss of $1,120,000. Of the 11 non-guaranteed private label whole loan mortgages, 4 are collateralized by 30 year fixed residential mortgages considered to be Prime and 7 are collateralized by 30-year fixed residential mortgages considered to be ALT A. Moreover, none of the underlying mortgage collateral is considered subprime .

For impaired debt securities for which there was no intent or expected requirement to sell, management considers available evidence to assess whether it is more likely-than-not that all amounts due would not be collected. In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company s position within the structure, underlying obligors, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. Based on the analysis of its impaired securities as of June 30, 2010, the Company determined that none of such securities had other-than-temporary impairment.

**Fair Value Measurements**

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* requires the Company to disclose information relating to fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB established a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

In April 2009, FASB issued an amendment to ASC Topic 820, *Fair Value Measurements and Disclosures*, relating to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The Company adopted the standard effective for the interim period ending June 30, 2009 and determined there was not a material effect on the Company s financial position or results of operations.

On a recurring basis, the Company measures and records investment securities at fair value. The fair value of such investments is estimated by obtaining quoted market prices for identical assets, where available. If such prices are not available, fair value is based on independent asset pricing services and models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. For those securities where greater reliance on unobservable inputs occurs, such securities are classified as Level 3 within the hierarchy.

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In performing due diligence reviews of the independent asset pricing services and models for investment securities, the Company reviewed the vendors inputs for fair value estimates and the recommended assignments of levels within the fair value hierarchy. The Company s review included the extent to which markets for investment securities were determined to have limited or no activity, or was judged to be an active market. The Company reviewed the extent to which observable and unobservable inputs were used as well as the appropriateness of the underlying assumptions about risk that a market participant would use in active markets, with adjustments for limited or inactive markets. In considering the inputs to the fair value estimates, the Company placed less reliance on quotes that were judged to not reflect orderly transactions, or were non-binding indications. The Company made independent inquires of other knowledgeable parties in testing the reliability of the inputs, including consideration for illiquidity, credit risk, and cash flow estimates. In assessing credit risk, the Company reviewed payment performance, collateral adequacy, credit rating histories, and issuers financial statements with follow-up discussion with issuers. For those markets determined to be inactive, the valuation techniques used were models for which management verified that discount rates were appropriately adjusted to reflect illiquidity and credit risk. The Company independently obtained cash flow estimates that were stressed at levels that exceeded those used by independent third party pricing vendors. Based on the Company s due diligence review, investment securities are placed in the appropriate hierarchy levels with adjustment to vendors recommendations made as necessary. Most notably, the Company determined that its collateralized debt obligation securities, i.e., trust preferred securities, were illiquid due to inactive markets (i.e., due to the absence of trade volume during 2009 and the first six months of 2010), the fair values of which had significant reliance on unobservable inputs, and therefore were classified as Level 3 within the hierarchy.

On a non-recurring basis, the Company measures other real estate owned and collateral-dependent impaired loans at fair value. The Company discloses the other real estate owned and collateral-dependent impaired loans with a recorded change in the financial statements resulting from measuring the assets at fair value on a non-recurring basis. The Company records real estate and other assets owned at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell. Estimated fair value of real estate and other assets owned is based on appraisals. The Company reviews the appraisals, giving consideration to the highest and best use of the collateral. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell. Real estate and other assets owned are classified within Level 3 of the fair value hierarchy.

The Company estimates the fair value of collateral-dependent impaired loans based on the appraised fair value of the collateral, less estimated cost to sell. The Company reviews the appraisals, giving consideration to the highest and best use of the collateral. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

In addition to measuring certain financial assets and liabilities on a recurring or non-recurring basis, the Company discloses estimated fair value on financial assets and liabilities. The following is a description of the methods and inputs used to estimate the fair value of other financial instruments recognized at amounts other than fair value.

The fair value for unimpaired loans, net of ALLL, is estimated by discounting the future cash flows using the rates at which similar notes would be originated for the same remaining maturities. The market rates used are based on current rates the bank subsidiaries would impose for similar loans and reflect a market participant assumption about risks associated with non-performance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

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The fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the bank subsidiaries. The estimated fair value of demand, NOW, savings, and money market deposits is the book value since rates are regularly adjusted to market rates.

The fair value of the non-callable FHLB advances is estimated by discounting the future cash flows using rates of similar advances with similar maturities. These rates were obtained from current rates offered by FHLB. The estimated fair value of callable FHLB advances was obtained from FHLB and the model was reviewed by the Company through discussions with FHLB.

The fair value of FRB discount window borrowings is estimated based on borrowing rates currently available to the Company for FRB discount window borrowings with similar terms and maturities. As of June 30, 2010 there are no outstanding FRB discount window borrowings.

The fair value of term repurchase agreements is estimated based on current repurchase rates currently available to the Company for repurchases agreements with similar terms and maturities. The market rates used are based on current rates the bank subsidiaries would incur for similar borrowings. The estimated fair value for overnight repurchase agreements and other borrowings is book value.

The fair value of the subordinated debentures is estimated by discounting the estimated future cash flows using current estimated market rates for subordinated debt issuances with similar characteristics. The market rates used were based on an independent third party s judgment and include inputs such as implied yield curves and interest rate spreads.

For additional information on fair value measurements see Note 13, *Fair Value Measurement,* in ITEM 1. Financial Statements.

**Liquidity Risk**

Liquidity risk is the possibility that the Company will not be able to fund present and future obligations. 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 Banks 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 Banks are members of FHLB. As of June 30, 2010, the Banks had $1.172 billion of available FHLB credit of which $530 million was utilized. The Banks may also borrow funds through the FRB and from the U.S. Treasury Tax and Loan program of which the Banks have remaining borrowing availability of $424 million and $9 million, respectively. Management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each bank subsidiary as well as the Company as a whole.

**Capital Resources and Adequacy**

Maintaining capital strength continues to be a long term objective. Abundant capital is necessary to sustain growth, provide protection against unanticipated declines in asset values, and to safeguard the funds of depositors. Capital also is a source of funds for loan demand and enables the Company to effectively manage its assets and liabilities. Stockholders equity increased $160 million since prior year end, or 23 percent, the net result of earnings of $23 million, a public offering of stock of $146 million, an increase in net unrealized gains on available-for-sale investment securities, less cash dividend payments. The FRB has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in supervising a bank holding company.

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**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.

**Effect of inflation and changing prices**

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

**Impact of Recent Authoritative Accounting Guidance**

The Accounting Standards Codification is FASB s officially recognized source of authoritative U.S. generally accepted accounting principles ( GAAP ) applicable to all public and non-public non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under the authority of the federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative.

In April 2010, FASB issued an amendment to FASB ASC Subtopic 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As a result of the amendments in this Update, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments in this Update are effective for modifications of loans accounted for within pools under Subtopic 310 30 occurring in the first interim or annual period ending on or after July 15, 2010. The company is currently evaluating the impact of the adoption of this amendment, but does not expect it to have a material effect on the Company s financial position or results of operations.

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

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

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

**Forward Looking Statements**

This Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about management s plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as expects, anticipates, intends, plans, believes, should, projects, seeks, estimates or words of s These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company s control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations in the forward-looking statements, including those set forth in this Form 10-Q:

- the risks associated with lending and potential adverse changes of the credit quality of loans in the Company s portfolio, including as a result of declines in the housing and real estate markets in its geographic areas;
- increased loan delinquency rates;
- the risks presented by a continued economic downturn, which could adversely affect credit quality, loan collateral values, other real estate owned values, investment values, liquidity and capital levels, dividends and loan originations;
- changes in market interest rates, which could adversely affect the Company s net interest income and profitability;
- legislative or regulatory changes that adversely affect the Company s business, ability to complete pending or prospective future acquisitions, limit certain sources of revenue, or increase cost of operations;
- costs or difficulties related to the integration of acquisitions;
- the goodwill the Company has recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings and capital;
- reduced demand for banking products and services;
- the risks presented by public stock market volatility, which could adversely affect the market price of the Company s common stock and the ability to raise additional capital in the future;
- competition from other financial services companies in the Company s markets;
- loss of services from the senior management team; and
- the Company s success in managing risks involved in the foregoing.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in Risk Factors in Item 1A. Please take into account that forward-looking statements speak only as of the date of this 10Q. The Company does not undertake any obligation to publicly correct or update any forward-looking statement if it later becomes aware that actual results are likely to differ materially from those expressed in such forward-looking statement.

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**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/A report for the year ended December 31, 2009.

**ITEM 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second quarter 2010, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company s internal control over financial reporting.

## PART II OTHER INFORMATION

**ITEM 1. Legal Proceedings**

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

**ITEM 1A. Risk Factors**

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

*The Company cannot accurately predict the effect of the continuing economic downturn on the Company s future results of operations or the market price of its common stock.*

The national economy and the financial services sector in particular continue to face challenges of a scope unprecedented in recent history. The Company cannot accurately predict the severity or duration of the continuing economic downturn, which has adversely impacted the Company s markets. Any further deterioration in the economies of the nation as a whole or in the Company s markets would have an adverse effect, which could be material, on the Company s business, financial condition, results of operations and prospects, and could also cause the market price of the Company s common stock to decline. While the Company cannot accurately predict how long these conditions may exist, the economic downturn could continue to present risks for some time for the industry and Company.

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*Further economic deterioration in the market areas the Company serves, including Montana, Idaho, Wyoming, Utah, Colorado and Washington, as well as the continuation of the current economic downturn, may continue to adversely impact earnings and could increase credit risk associated with the loan portfolio.*

The inability of borrowers to repay loans can erode earnings by reducing earnings and by requiring the Company to add to its allowance for loan and lease losses. The effects of the national economic downturn are significantly impacting the market areas the Company serves. Further deterioration in the market areas the Company serves, as well as the continuation of the current economic downturn, could result in the following consequences, any of which could have an adverse impact, which could be material, on the Company s business, financial condition, results of operations and prospects:

- § loan delinquencies may increase further;
- § problem assets and foreclosures may increase further;
- § collateral for loans made may decline further in value, in turn reducing customers borrowing power, reducing the value of assets and collateral associated with existing loans;
- § demand for banking products and services may decline; and
- § low cost or non-interest bearing deposits may decrease.

*The allowance for loan and lease losses may not be adequate to cover actual loan losses, which could adversely affect earnings.*

The Company maintains an ALLL in an amount that it believes is adequate to provide for losses in the loan portfolio. While the Company strives to carefully manage and monitor credit quality and to identify loans that may become non-performing, at any time there are loans included in the portfolio that will result in losses, but that have not been identified as non-performing or potential problem loans. By closely monitoring credit quality, the Company attempts to identify deteriorating loans before they become nonperforming assets and adjust the ALLL accordingly. However, because future events are uncertain, and if the economic downturn continues or deteriorates further, there may be loans that deteriorate to a non-performing status in an accelerated time frame. As a result, future additions to the ALLL may be necessary. Because the loan portfolio contains a number of loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in non-performing loans, requiring an increase to the ALLL. Additionally, future significant additions to the ALLL may be required based on changes in the mix of loans comprising the portfolio, changes in the financial condition of borrowers, which may result from changes in economic conditions, or as a result of incorrect assumptions by management in determining the ALLL. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review the Company s loan portfolio and the adequacy of the ALLL. These regulatory agencies may require the Company to recognize further loan loss provisions or charge-offs based upon their judgments, which may be different from the Company s judgments. Any increase in the ALLL would have an adverse effect, which could be material, on the Company s financial condition and results of operations.

*The Company has a high concentration of loans secured by real estate, so any further deterioration in the real estate markets could require material increases in ALLL and adversely affect the Company s financial condition and results of operations.*

A continuation of the downturn in the economic conditions or real estate values of the Company s market areas, and particularly a further deterioration of such economic conditions or real estate values, may cause the Company to have lower earnings and could increase credit risk associated with the loan portfolio, as the collateral securing those loans may decrease in value. The continued downturn in the local economy or a further deterioration of the local economy could have a material adverse effect both on the borrowers ability to repay these loans, as well as the value of the real property held as collateral. The Company s ability to recover on these loans by selling or disposing of the underlying real estate collateral is adversely impacted by declining real estate values, which increases the likelihood that the Company will suffer losses on defaulted loans secured by real estate beyond the amounts provided for in the ALLL.

This, in turn, could require material increases in the ALLL which would adversely affect the Company s financial condition and results of operations, perhaps materially.

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

A continued tightening of the credit markets and the inability to obtain or retain adequate funds for continued loan growth at an acceptable cost may negatively affect the Company s asset growth and liquidity position and, therefore, earnings capability. In addition to core deposit growth, maturity of investment securities and loan payments, the Company also relies on alternative funding sources through correspondent banking, and borrowing lines with the FRB and FHLB to fund loans. In the event the current economic downturn continues, particularly in the housing market, these resources could be negatively affected, both as to price and availability, which would limit and or raise the cost of the funds available to the Company.

*There can be no assurance the Company will be able to continue paying dividends on the common stock at recent levels.*

The ability to pay dividends on the Company s common stock depends on a variety of factors. The Company paid dividends of $0.13 per share in each quarter of 2009 and the first two quarters of 2010. There can be no assurance that the Company will be able to continue paying quarterly dividends commensurate with recent levels. In that regard, the Federal Reserve now is requiring the Company to provide prior written notice and related information for staff review before declaring or paying dividends. In addition, current guidance from the Federal Reserve provides, among other things, that dividends per share generally should not exceed earnings per share. As a result, future dividends will depend on sufficient earnings to support them. Furthermore, the Company s ability to pay dividends depends on the amount of dividends paid to the Company by its subsidiaries, which is also subject to government regulation, oversight and review. In addition, the ability of some of the bank subsidiaries to pay dividends to the Company is subject to prior regulatory approval.

*The Company may not be able to continue to grow organically or through acquisitions.*

Historically, the Company has expanded through a combination of organic growth and acquisitions. If market and regulatory conditions remain challenging, the Company may be unable to grow organically or successfully complete potential future acquisitions. In particular, while the Company intends to focus any near-term acquisition efforts on FDIC-assisted transactions within its existing market areas, there can be no assurance that such opportunities will become available on terms that are acceptable to the Company. Furthermore, there can be no assurance that the Company can successfully complete such transactions, since they are subject to a formal bid process and regulatory review and approval.

*The FDIC has increased insurance premiums to rebuild and maintain the federal deposit insurance fund and there may be additional future premium increases and special assessments.*

The FDIC adopted a final rule revising its risk-based assessment system, effective April 1, 2009. The changes to the assessment system involve adjustments to the risk-based calculation of an institution s unsecured debt, secured liabilities and brokered deposits. The revisions effectively result in a range of possible assessments under the risk-based system of 7 to 77.5 basis points. The potential increase in FDIC insurance premiums could have a significant impact on the Company.

On May 22, 2009, the FDIC imposed a special deposit insurance assessment of five basis points on all insured institutions. This emergency assessment was calculated based on the insured institution s assets at June 30, 2009, and collected on September 30, 2009. This special assessment was in addition to the regular quarterly risk-based assessment.

The FDIC also has recently required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 and for 2010, 2011 and 2012, and increased the regular assessment rate by three basis points effective January 1, 2011, as a means of replenishing the deposit insurance fund. The prepayment was collected on December 30, 2009, and was accounted for as a prepaid expense amortized over the prepayment period.

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The FDIC deposit insurance fund may suffer additional losses in the future due to bank failures. There can be no assurance that there will not be additional significant deposit insurance premium increases, special assessments or prepayments in order to restore the insurance fund s reserve ratio. Any significant premium increases or special assessments could have a material adverse effect on the Company s financial condition and results of operations.

*The Company s loan portfolio mix increases the exposure to credit risks tied to deteriorating conditions.*

The loan portfolio contains a high percentage of commercial, commercial real estate, real estate acquisition and development loans in relation to the total loans and total assets. These types of loans have historically been viewed as having more risk of default than residential real estate loans or certain other types of loans or investments. In fact, the FDIC has issued pronouncements alerting banks of its concern about banks with a heavy concentration of commercial real estate loans. These types of loans also typically are larger than residential real estate loans and other commercial loans. Because the Company s loan portfolio contains a significant number of commercial and commercial real estate loans with relatively large balances, the deterioration of one or more of these loans may cause a significant increase in non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, which could have an adverse impact on results of operations and financial condition.

*Non-performing assets have increased significantly and could continue to increase, which could adversely affect the Company s results of operations and financial condition.*

Non-performing assets (which include foreclosed real estate) adversely affects the Company s net income and financial condition in various ways. The Company does not record interest income on non-accrual loans or other real estate owned, thereby adversely affecting its income. When the Company takes collateral in foreclosures and similar proceedings, it is required to mark the related asset to the then fair market value of the collateral less cost to sell, which may result in a charge-off of the value of the asset and lead the Company to increase the provision for loan losses. An increase in the level of non-performing assets also increases the Company s risk profile and may impact the capital levels its regulators believe is appropriate in light of such risks. Continued decreases in the value of these assets, or the underlying collateral, or in these borrowers performance or financial condition, whether or not due to economic and market conditions beyond the Company s control, could adversely affect the Company s business, results of operations and financial condition, perhaps materially. In addition to the carrying costs to maintain other real estate owned, the resolution of non-performing assets increases the Company s loan administration costs generally, and requires significant commitments of time from management and the Company s directors, which can be detrimental to performance of their other responsibilities. There can be no assurance that the Company will not experience further increases in non-performing assets in the future.

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*The Company s ability to access markets for funding and acquire and retain customers could be adversely affected by the deterioration of other financial institutions or to the extent the financial service industry s reputation is damaged.*
Reputation risk is the risk to liquidity, earnings and capital arising from negative publicity regarding the financial services industry. The financial services industry continues to be featured in negative headlines about the global and national credit crisis and the resulting stabilization legislation enacted by the U.S. federal government. These reports can be damaging to the industry s image and potentially erode consumer confidence in insured financial institutions, such as the Company s bank subsidiaries. In addition, the Company s ability to engage in routine funding and other transactions could be adversely affected by the actions and financial condition of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, correspondent, counterparty or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry in general, could lead to market-wide liquidity problems, losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. The Company could experience material changes in the level of deposits as a direct or indirect result of other banks difficulties or failure, which could affect the amount of capital needed.
*Decline in the fair value of the Company s investment portfolio could adversely affect earnings*
The fair value of the Company s investment securities could decline as a result of factors including changes in market interest rates, credit quality and ratings, lack of market liquidity and other economic conditions. Investment securities are impaired if the fair value of the security is less than the carrying value. When a security is impaired, the Company determines whether impairment is temporary or other-than-temporary. If an impairment is determined to be other-than temporary, an impairment loss is recognized by reducing the amortized cost only for the credit loss associated with an other-than-temporary loss with a corresponding charge to earnings for a like amount.
*Fluctuating interest rates can adversely affect profitability.*
The Company s profitability is dependent to a large extent upon net interest income, which is the difference (or spread ) between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the Company s interest rate spread, and, in turn, profitability. The Company seeks to manage its interest rate risk within well established guidelines. Generally, the Company seeks an asset and liability structure that insulates net interest income from large deviations attributable to changes in market rates. However, the Company s structures and practices to manage interest rate risk may not be effective in a highly volatile rate environment.
*If the goodwill recorded in connection with acquisitions becomes impaired, it could have an adverse impact on earnings and capital.*
Accounting standards require that the Company account for acquisitions using the acquisition method of accounting. Under acquisition accounting, if the purchase price of an acquired company exceeds the fair value of its net assets, the excess is carried on the acquiror s balance sheet as goodwill. In accordance with generally accepted accounting principles in the United States of America, goodwill is not amortized but rather is evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. Although at the current time the Company has not incurred an impairment of goodwill, there can be no assurance that future evaluations of goodwill will not result in findings of impairment and write-downs, which could be material. An impairment of goodwill could have a material adverse affect on the Company s business, financial condition and results of operations. Furthermore, an impairment of goodwill could subject the Company to regulatory limitations, including the ability to pay dividends on common stock.

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*Growth through future acquisitions could, in some circumstances, adversely affect profitability or other performance measures.*

The Company has in recent years acquired other financial institutions. The Company may in the future engage in selected acquisitions of additional financial institutions, including transactions that may receive assistance from the FDIC, although there can be no assurance that the Company will be able to successfully complete any such transactions. There are risks associated with any such acquisitions that could adversely affect profitability and other performance measures. These risks include, among other things, incorrectly assessing the asset quality of a financial institution being acquired, encountering greater than anticipated cost of integrating acquired businesses into the Company s operations, and being unable to profitably deploy funds acquired in an acquisition. The Company cannot provide any assurance as to the extent to which the Company can continue to grow through acquisitions or the impact of such acquisitions on the Company s operating results or financial condition.

The Company anticipates that it might issue capital stock in connection with future acquisitions. Acquisitions and related issuances of stock may have a dilutive effect on earnings per share and the percentage ownership of current shareholders.

*The Company may pursue additional capital in the future, which could dilute the holders of the Company s outstanding common stock and may adversely affect the market price of common stock.*

In the current economic environment, the Company believes it is prudent to consider alternatives for raising capital when opportunities to raise capital at attractive prices present themselves, in order to further strengthen the Company s capital and better position itself to take advantage of opportunities that may arise in the future. Such alternatives may include issuance and sale of common or preferred stock, trust preferred securities, or borrowings by the Company, with proceeds contributed to the bank subsidiaries. Any such capital raising alternatives could dilute the holders of the Company s outstanding common stock, and may adversely affect the market price of our common stock and performance measures such as earnings per share.

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

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

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

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

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*The Company operates in a highly regulated environment and changes of or increases in, or supervisory enforcement of, banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect the Company.*

The Company is subject to extensive regulation, supervision and examination by federal and state banking authorities. In addition, as a publicly-traded company, the Company is subject to regulation by the Securities and Exchange Commission. Any change in applicable regulations or federal, state or local legislation or in policies or interpretations or regulatory approaches to compliance and enforcement, income tax laws and accounting principles could have a substantial impact on the Company and its operations. Changes in laws and regulations may also increase expenses by imposing additional fees or taxes or restrictions on operations. Additional legislation and regulations that could significantly affect powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on the Company s financial condition and results of operations. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies or damage to the Company s reputation, all of which could adversely affect the Company s business, financial condition or results of operations.

In that regard, sweeping financial regulatory reform legislation was enacted in July 2010. Among other provisions, the new legislation (i) creates a new Bureau of Consumer Financial Protection with broad powers to regulate consumer financial products such as credit cards and mortgages, (ii) creates a Financial Stability Oversight Council comprised of the heads of other regulatory agencies, (iii) will lead to new capital requirements from federal banking agencies, (iv) places new limits on electronic debt card interchange fees, and (v) will require the Securities and Exchange Commission and national stock exchanges to adopt significant new corporate governance and executive compensation reforms. The new legislation and regulations are expected to increase the overall costs of regulatory compliance. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. Recently, these powers have been utilized more frequently due to the serious national, regional and local economic conditions the Company is facing. The exercise of regulatory authority may have a negative impact on the Company s financial condition and results of operations. Additionally, the Company s business is affected significantly by the fiscal and monetary policies of the U.S. federal government and its agencies, including the Federal Reserve Board.

The Company cannot accurately predict the full effects of recent legislation or the various other governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets, on the Company and on the banks. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions could materially and adversely affect the Company s business, financial condition, results of operations, and the trading price of the Company s common stock.

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**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 5. Other Information**

(a) Not Applicable
(b) Not Applicable

**ITEM 6. Exhibits**

| | |
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| 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 |
| Exhibit 101 | The following financial information from Glacier Bancorp, Inc s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 is formatted in XBRL: (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Stockholders Equity and Comprehensive Income, (iv) the Unaudited Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Condensed Consolidated Financial Statements, tagged as blocks of text. |

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**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 6, 2010 | /s/ Michael J. Blodnick<br>Michael J. Blodnick<br>President/CEO |
| August 6, 2010 | /s/ Ron J. Copher<br>Ron J. Copher<br>Senior Vice President/CFO |