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GLACIER BANCORP INC
Form 10-Q
May 08, 2007

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

FORM 10-Q

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

For the quarterly period ended March 31, 2007

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

For the transition period from _____ to _____

COMMISSION FILE 0-18911

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

MONTANA
(State or other jurisdiction of
incorporation or organization)

81-0519541
(IRS Employer
Identification No.)

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

59901
(Zip Code)

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

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

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

Indicate by checkmark whether the registrant is a large accelerated filer, or an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

The number of shares of Registrant's common stock outstanding on April 30, 2007

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was 52,689,338. No preferred shares are issued or outstanding.

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

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GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| (Dollars in thousands, except per share data) | March 31, 2007 | December 31, 2006 | March 31, 2006 |
|---|-------------------|----------------------|-------------------|
| | (UNAUDITED) | | (unaudited) |
| ASSETS: | | | |
| Cash on hand and in banks | \$ 123,697 | 136,591 | 105,474 |
| Federal funds sold | 2,752 | 6,125 | 9,155 |
| Interest bearing cash deposits | 88,112 | 30,301 | 21,343 |
| | | | |
| Cash and cash equivalents | 214,561 | 173,017 | 135,972 |
| | | | |
| Investment securities | 773,364 | 825,637 | 923,382 |
| Loans receivable, net | 3,124,368 | 3,130,389 | 2,502,279 |
| Loans held for sale | 32,778 | 35,135 | 25,153 |
| Premises and equipment, net | 115,123 | 110,759 | 86,179 |
| Real estate and other assets owned, net .. | 1,727 | 1,484 | 778 |
| Accrued interest receivable | 25,340 | 25,729 | 19,317 |
| Core deposit intangible, net | 13,861 | 14,750 | 7,594 |
| Goodwill | 132,303 | 129,716 | 79,099 |
| Other assets | 25,588 | 24,682 | 23,036 |
| | | | |
| | \$ 4,459,013 | 4,471,298 | 3,802,789 |
| | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | | |
| Non-interest bearing deposits | \$ 788,426 | 829,355 | 683,201 |
| Interest bearing deposits | 2,410,668 | 2,378,178 | 2,010,198 |
| Advances from Federal Home Loan Bank of Seattle | 455,625 | 307,522 | 505,209 |
| Securities sold under agreements to repurchase | 162,491 | 170,216 | 132,207 |
| Other borrowed funds | 5,930 | 168,770 | 2,774 |
| Accrued interest payable | 12,980 | 11,041 | 8,537 |
| Deferred tax liability | 94 | 1,927 | 2,098 |
| Subordinated debentures | 118,559 | 118,559 | 87,631 |
| Other liabilities | 31,804 | 29,587 | 26,543 |
| | | | |
| Total liabilities | 3,986,577 | 4,015,155 | 3,458,398 |
| | | | |
| Preferred shares, \$.01 par value per share. 1,000,000 shares authorized None issued or outstanding | -- | -- | -- |
| Common stock, \$.01 par value per share 117,187,5000 shares authorized | 527 | 523 | 485 |
| Paid-in capital | 350,065 | 344,265 | 265,603 |
| Retained earnings - substantially restricted | 118,054 | 108,286 | 78,171 |
| Accumulated other comprehensive income ... | 3,790 | 3,069 | 132 |
| | | | |
| Total stockholders' equity | 472,436 | 456,143 | 344,391 |
| | | | |

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| | | | |
|------------------------------------|--------------|------------|------------|
| | \$ 4,459,013 | 4,471,298 | 3,802,789 |
| | ===== | ===== | ===== |
| Number of shares outstanding | 52,656,162 | 52,302,820 | 48,471,168 |
| Book value per share | \$ 8.97 | 8.72 | 7.11 |

See accompanying notes to condensed consolidated financial statements.

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GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| (UNAUDITED - dollars in thousands, except per share data) | THREE MONTHS ENDED MARCH 31, | |
|---|------------------------------|--------|
| | 2007 | 2006 |
| INTEREST INCOME: | | |
| Real estate loans | \$ 14,441 | 10,989 |
| Commercial loans | 36,652 | 25,525 |
| Consumer and other loans | 11,314 | 8,865 |
| Investment securities and other | 9,513 | 10,573 |
| | 71,920 | 55,952 |
| INTEREST EXPENSE: | | |
| Deposits | 18,807 | 11,291 |
| Federal Home Loan Bank of Seattle advances | 5,042 | 4,796 |
| Securities sold under agreements to repurchase | 1,887 | 1,290 |
| Subordinated debentures | 1,814 | 1,429 |
| Other borrowed funds | 1,279 | 838 |
| | 28,829 | 19,644 |
| NET INTEREST INCOME | 43,091 | 36,308 |
| Provision for loan losses | 1,195 | 1,165 |
| | 41,896 | 35,143 |
| NON-INTEREST INCOME: | | |
| Service charges and other fees | 8,263 | 6,406 |
| Miscellaneous loan fees and charges | 1,822 | 1,811 |
| Gains on sale of loans | 3,042 | 2,190 |
| Loss on sale of investments | (8) | -- |
| Other income | 2,573 | 749 |
| | 15,692 | 11,156 |
| NON-INTEREST EXPENSE: | | |
| Compensation, employee benefits and related expenses | 19,506 | 15,311 |
| Occupancy and equipment expense | 4,458 | 3,491 |

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| | | |
|---|------------|------------|
| Outsourced data processing expense | 812 | 724 |
| Core deposit intangibles amortization | 780 | 420 |
| Other expenses | 7,627 | 5,881 |
| | ----- | ----- |
| Total non-interest expense | 33,183 | 25,827 |
| | ----- | ----- |
| EARNINGS BEFORE INCOME TAXES | 24,405 | 20,472 |
| | ----- | ----- |
| Federal and state income tax expense | 8,312 | 6,843 |
| | ----- | ----- |
| NET EARNINGS | \$ 16,093 | 13,629 |
| | ===== | ===== |
| Basic earnings per share | \$ 0.31 | 0.28 |
| Diluted earnings per share | \$ 0.30 | 0.28 |
| Dividends declared per share | \$ 0.12 | 0.11 |
| Return on average assets (annualized) .. | 1.48% | 1.48% |
| Return on average equity (annualized) .. | 14.02% | 16.21% |
| Average outstanding shares - basic | 52,500,395 | 48,378,237 |
| Average outstanding shares - diluted ... | 53,239,346 | 49,239,701 |

See accompanying notes to condensed consolidated financial statements.

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GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2006 AND UNAUDITED THREE MONTHS ENDED MARCH 31, 2007

| (Dollars in thousands, except per share data) | Common Stock | | Paid-in capital | Retained earnings, substantial restrictions |
|--|--------------|--------|-----------------|---|
| | Shares | Amount | | |
| Balance at December 31, 2005..... | 48,258,821 | \$483 | 262,222 | 69,711 |
| Comprehensive income: | | | | |
| Net earnings..... | -- | -- | -- | 61,131 |
| Unrealized gain on securities, net of reclassification adjustment and taxes..... | -- | -- | -- | -- |
| Total comprehensive income..... | | | | |
| Cash dividends declared (\$.45 per share)..... | -- | -- | -- | (22,551) |
| Stock options exercised..... | 639,563 | 6 | 6,700 | -- |
| Stock issued in connection with acquisitions..... | 1,904,436 | 19 | 41,431 | -- |
| Public offering of stock issued..... | 1,500,000 | 15 | 29,418 | -- |
| Acquisition of fractional shares..... | -- | -- | (5) | -- |
| Stock based compensation and tax benefit..... | -- | -- | 4,499 | -- |
| | ----- | ----- | ----- | ----- |
| Balance at December 31, 2006..... | 52,302,820 | \$523 | 344,265 | 108,288 |
| Comprehensive income: | | | | |
| Net earnings..... | -- | -- | -- | 16,093 |
| Unrealized gain on securities, net of reclassification | | | | |

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| | | | | |
|--|------------|-------|---------|--------|
| adjustment and taxes..... | -- | -- | -- | -- |
| Total comprehensive income..... | | | | |
| Cash dividends declared (\$.12 per share)..... | -- | -- | -- | (6,32 |
| Stock options exercised..... | 353,342 | 4 | 3,711 | -- |
| Stock based compensation and tax benefit..... | -- | -- | 2,089 | -- |
| | ----- | ----- | ----- | ----- |
| Balance at March 31, 2007 (unaudited)..... | 52,656,162 | \$527 | 350,065 | 118,05 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | THREE MONTHS ENDED | |
|---|--------------------|--------|
| | MARCH 31, | |
| (UNAUDITED - dollars in thousands) | 2007 | 2006 |
| ----- | ----- | ----- |
| OPERATING ACTIVITIES : | | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES..... | \$ 25,755 | 18,8 |
| | ----- | ----- |
| INVESTING ACTIVITIES: | | |
| Proceeds from sales, maturities and prepayments of | | |
| investments available-for-sale..... | 61,768 | 43,2 |
| Purchases of investments available-for-sale..... | (7,481) | (7 |
| Principal collected on installment and commercial loans..... | 262,076 | 249,6 |
| Installment and commercial loans originated or acquired..... | (299,714) | (350,1 |
| Principal collections on mortgage loans..... | 123,188 | 89,6 |
| Mortgage loans originated or acquired..... | (103,330) | (117,8 |
| Net purchase of FHLB and FRB stock..... | (1,693) | (4 |
| Net cash paid for sale of Western's Lewistown branch..... | (6,846) | (6,8 |
| Net addition of premises and equipment..... | (5,295) | (7,7 |
| | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES..... | 22,673 | (94,5 |
| | ----- | ----- |
| FINANCING ACTIVITIES: | | |
| Net increase in deposits | 16,970 | 158,6 |
| Net decrease in FHLB advances and other borrowed funds | (14,737) | (81,9 |
| Net (decrease) increase in securities sold under repurchase agreements... | (7,724) | 2,6 |
| Cash dividends paid..... | (6,325) | (5,1 |
| Excess tax benefits from stock options..... | 1,217 | 4 |
| Proceeds from exercise of stock options and other stock issued..... | 3,715 | 2,1 |
| | ----- | ----- |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES..... | (6,884) | 76,9 |
| | ----- | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS..... | 41,544 | 1,2 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD..... | 173,017 | 134,6 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ 214,561 | 135,9 |
| | ===== | ===== |

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | | |
|--|-----------|------|
| Cash paid during the period for: Interest..... | \$ 26,891 | 18,5 |
| Income taxes..... | \$ 2,400 | 3 |

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Glacier Bancorp Inc.'s (the "Company") financial condition as of March 31, 2007, and March 31, 2006, stockholders' equity for the three months ended March 31, 2007, the results of operations for the three months ended March 31, 2007 and 2006, and cash flows for the three months ended March 31, 2007 and 2006. The condensed consolidated statement of financial condition and statement of stockholders' equity and comprehensive income of the Company as of December 31, 2006 have been derived from the audited consolidated statements of the Company as of that date.

The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results anticipated for the year ending December 31, 2007. Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

2) Organizational Structure

The Company, headquartered in Kalispell, Montana, is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation incorporated in 1990. The Company is the parent company for twelve wholly-owned banking subsidiaries: Glacier Bank ("Glacier"), First Security Bank of Missoula ("First Security"), Western Security Bank ("Western"), Big Sky Western Bank ("Big Sky"), Valley Bank of Helena ("Valley"), Glacier Bank of Whitefish ("Whitefish"), First National Bank of Lewistown and Western Bank of Chinook, all located in Montana, Mountain West Bank ("Mountain West") which is located in Idaho, Utah, and Washington, Citizens Community Bank ("Citizens") located in Idaho, 1st Bank ("1st Bank") located in Wyoming, and First National Bank of Morgan ("Morgan") located in Utah.

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

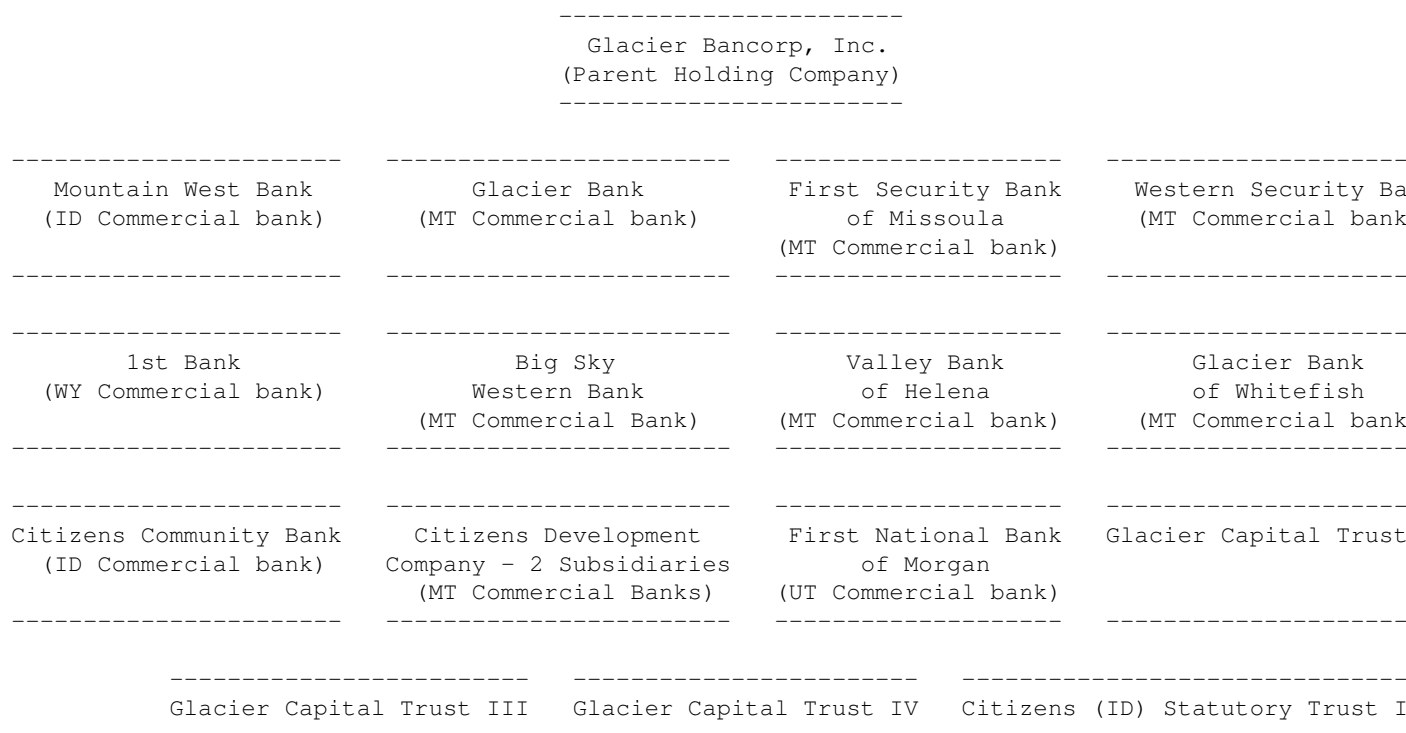
On October 1, 2006, the Company acquired Citizens Development Company

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("CDC") and its five subsidiaries which include: Citizens State Bank, First Citizens Bank of Billings ("FCB-Billings"), First National Bank of Lewistown, Western Bank of Chinook, and First Citizens Bank, N.A. On January 26, 2007, Citizens State Bank, FCB-Billings, and First Citizens Bank, N.A. were merged into First Security, Western, and Glacier, respectively, without name change for First Security, Western, and Glacier. First National Bank of Lewistown and Western Bank of Chinook are one reporting segment for purposes of financial reporting for the three months ended March 31, 2007. It is anticipated that during June of 2007, Western Bank of Chinook will merge into First National Bank of Lewistown.

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The following abbreviated organizational chart illustrates the various relationships:



3) Ratios

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

4) Dividends Declared

On March 28, 2007, the Board of Directors declared a \$.12 per share cash dividend payable on April 19, 2007 to stockholders of record on April 10, 2007.

5) Computation of Earnings Per Share

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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:

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| | Three months ended March 31, 2007 | Three months ended March 31, 2006 |
|--|---|---|
| | ----- | ----- |
| Net earnings available to common stockholders..... | \$16,093,000 | 13,629,000 |
| Average outstanding shares - basic..... | 52,500,395 | 48,378,237 |
| Add: Dilutive stock options..... | 738,951 | 861,464 |
| | ----- | ----- |
| Average outstanding shares - diluted... | 53,239,346 | 49,239,701 |
| | ===== | ===== |
| Basic earnings per share..... | \$ 0.31 | 0.28 |
| | ===== | ===== |
| Diluted earnings per share..... | \$ 0.30 | 0.28 |
| | ===== | ===== |

There were approximately 12,750 and 215,463 average shares excluded from the three months ended diluted share calculation as of March 31, 2007, and 2006, respectively, due to the option exercise price exceeding the market price.

6) Investments

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

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INVESTMENTS AS OF MARCH 31, 2007

| (Dollars in thousands) | Weighted Yield | Amortized Cost | Gross Unrealized | |
|---------------------------------------|-------------------|-------------------|------------------|--------|
| ----- | ----- | ----- | Gains | Losses |
| | | | ----- | ----- |
| AVAILABLE-FOR-SALE: | | | | |
| U.S. GOVERNMENT AND FEDERAL AGENCIES: | | | | |
| maturing within one year | 4.85% | \$ 2,300 | -- | -- |
| GOVERNMENT-SPONSORED ENTERPRISES: | | | | |

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| | | | | |
|--|-------|-----------|--------|---------|
| maturing within one year | 5.07% | 7,485 | -- | (11) |
| maturing one year through five years | 5.15% | 149 | -- | -- |
| maturing five years through ten years | 7.88% | 286 | 1 | -- |
| maturing after ten years | 6.77% | 151 | 1 | -- |
| | | ----- | ----- | ----- |
| | 5.20% | 8,071 | 2 | (11) |
| | | ----- | ----- | ----- |
| STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES: | | | | |
| maturing within one year | 4.40% | 1,444 | 1 | |
| maturing one year through five years | 4.77% | 4,774 | 34 | (20) |
| maturing five years through ten years | 5.72% | 15,482 | 767 | (8) |
| maturing after ten years | 5.18% | 273,814 | 11,372 | (50) |
| | | ----- | ----- | ----- |
| | 5.20% | 295,514 | 12,174 | (78) |
| | | ----- | ----- | ----- |
| MORTGAGE-BACKED SECURITIES | | | | |
| | 4.78% | 48,650 | 154 | (1,121) |
| REAL ESTATE MORTGAGE INVESTMENT CONDUITS | | | | |
| | 4.18% | 345,797 | 46 | (5,094) |
| FHLMC AND FNMA STOCK | | | | |
| | 5.74% | 7,593 | 182 | -- |
| OTHER INVESTMENTS: | | | | |
| CERTIFICATES OF DEPOSITS WITH OVER 90 DAY MATURITY.... | | | | |
| | 4.94% | 1,775 | -- | -- |
| FHLB AND FRB STOCK, AT COST | | | | |
| | 1.40% | 57,410 | -- | -- |
| | | ----- | ----- | ----- |
| TOTAL INVESTMENTS | 4.43% | \$767,110 | 12,558 | (6,304) |
| | | ===== | ===== | ===== |

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INVESTMENTS AS OF DECEMBER 31, 2006

| (Dollars in thousands) | Weighted Yield | Amortized Cost | Gross Unrealized | |
|---|-------------------|-------------------|------------------|--------|
| ----- | ----- | ----- | Gains | Losses |
| ----- | ----- | ----- | ----- | ----- |
| AVAILABLE-FOR-SALE: | | | | |
| U.S. GOVERNMENT AND FEDERAL AGENCIES: | | | | |
| maturing within one year | 4.78% | \$ 10,982 | -- | (6) |
| GOVERNMENT-SPONSORED ENTERPRISES: | | | | |
| maturing within one year | 4.90% | 8,177 | -- | (17) |
| maturing one year through five years | 5.15% | 648 | -- | -- |
| maturing five years through ten years | 7.73% | 352 | 5 | -- |
| maturing after ten years | 6.68% | 153 | 1 | -- |
| | | ----- | ----- | ----- |
| | 5.05% | 9,330 | 6 | (17) |
| | | ----- | ----- | ----- |
| STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES: | | | | |
| maturing within one year | 3.65% | 2,190 | 2 | (1) |
| maturing one year through five years | 4.08% | 5,736 | 43 | (21) |
| maturing five years through ten years | 4.92% | 15,180 | 818 | (11) |
| maturing after ten years | 5.12% | 276,756 | 11,794 | (86) |
| | | ----- | ----- | ----- |
| | 5.08% | 299,862 | 12,657 | (119) |
| | | ----- | ----- | ----- |

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| | | | | |
|---|-------|-----------|--------|---------|
| MORTGAGE-BACKED SECURITIES | 4.74% | 51,673 | 150 | (1,235) |
| REAL ESTATE MORTGAGE INVESTMENT CONDUITS | 4.14% | 382,551 | 45 | (6,634) |
| FHLMC AND FNMA STOCK | 5.74% | 7,593 | 218 | -- |
| OTHER INVESTMENTS: | | | | |
| CERTIFICATES OF DEPOSITS WITH OVER 90 DAY MATURITY | 4.83% | 2,864 | -- | -- |
| FHLB AND FRB STOCK, AT COST | 1.26% | 55,717 | -- | -- |
| | | ----- | ----- | ----- |
| TOTAL INVESTMENTS | 4.36% | \$820,572 | 13,076 | (8,011) |
| | | ===== | ===== | ===== |

Interest income includes tax-exempt interest for the three months ended March 31, 2007 and 2006 of \$3,452,000 and \$3,489,000, respectively.

Gross proceeds from sales of investment securities for the three months ended March 31, 2007 and 2006 were \$1,355,000 and \$0, respectively, resulting in gross gains of approximately \$0 and \$0, respectively, and gross losses of approximately \$8,000 and \$0, respectively. The cost of any investment sold is determined by specific identification.

7) Loans

The following table summarizes the Company's loan portfolio:

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| TYPE OF LOAN (Dollars in thousands) | At 3/31/2007 | | At 12/31/2006 | | At 3/31/2006 |
|---|-----------------|---------|------------------|---------|-----------------|
| | Amount | Percent | Amount | Percent | Amount |
| Real Estate Loans: | | | | | |
| Residential real estate | \$ 737,561 | 23.4% | \$ 758,921 | 24.0% | \$ 617,486 |
| Loans held for sale | 32,778 | 1.0% | 35,135 | 1.1% | 25,153 |
| Total | 770,339 | 24.4% | 794,056 | 25.1% | 642,639 |
| Commercial Loans: | | | | | |
| Real estate | 964,239 | 30.5% | 954,290 | 30.2% | 812,727 |
| Other commercial | 893,185 | 28.3% | 902,994 | 28.5% | 626,615 |
| Total | 1,857,424 | 58.8% | 1,857,284 | 58.7% | 1,439,342 |
| Consumer and other Loans: | | | | | |
| Consumer | 214,798 | 6.8% | 218,640 | 6.9% | 194,806 |
| Home equity | 375,911 | 11.9% | 356,477 | 11.3% | 298,564 |
| Total | 590,709 | 18.7% | 575,117 | 18.2% | 493,370 |
| Net deferred loan fees, premiums and discounts | (10,786) | -0.3% | (11,674) | -0.4% | (8,068) |
| Allowance for loan losses | (50,540) | -1.6% | (49,259) | -1.6% | (39,851) |
| Loan receivable, net | \$3,157,146 | 100.0% | \$3,165,524 | 100.0% | \$2,527,432 |
| | ===== | ===== | ===== | ===== | ===== |

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

NONPERFORMING ASSETS (Dollars in thousands)

| | At 3/31/2007 ----- | At 12/31/2006 ----- | At 3/31/2006 ----- |
|---|--------------------------|---------------------------|--------------------------|
| Non-accrual loans: | | | |
| Real estate loans | \$ 1,134 | 1,806 | 595 |
| Commercial loans | 3,849 | 3,721 | 3,474 |
| Consumer and other loans | 614 | 538 | 247 |
| | ----- | ----- | ----- |
| Total | \$ 5,597 | 6,065 | 4,316 |
| Accruing Loans 90 days or more overdue: | | | |
| Real estate loans | 697 | 554 | 1,516 |
| Commercial loans | 2,778 | 638 | 3,196 |
| Consumer and other loans | 507 | 153 | 520 |
| | ----- | ----- | ----- |
| Total | \$ 3,982 | 1,345 | 5,232 |
| Real estate and other assets owned, net | 1,727 | 1,484 | 778 |
| | ----- | ----- | ----- |
| Total non-performing loans and real estate and other assets owned, net | \$11,306 ===== | 8,894 ===== | 10,326 ===== |
| As a percentage of total bank assets | 0.25% | 0.19% | 0.27% |
| Interest Income (1) | \$ 109 | 462 | 78 |

(1) Amounts represent interest income that would have been recognized on loans accounted for on a non-accrual basis for the three months ended March 31, 2007, the year ended December 31, 2006 and the three months ended March 31, 2006, had such loans performed pursuant to contractual terms.

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The following table illustrates the loan loss experience:

ALLOWANCE FOR LOAN LOSSES

| (Dollars in thousands) ----- | Three months ended March 31, 2007 ----- | Year ended December 31, 2006 ----- | Three months March 31 2006 ----- |
|---------------------------------|--|---|---|
| Balance at beginning of period | \$49,259 | 38,655 | 38,655 |
| Charge offs: | | | |
| Real estate loans | (42) | (14) | (6) |
| Commercial loans | (212) | (1,187) | (45) |
| Consumer and other loans | (96) | (448) | (102) |

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| | | | |
|--|----------|---------|--------|
| Total charge-offs | \$ (350) | (1,649) | (153) |
| Recoveries: | | | |
| Real estate loans | 89 | 341 | 55 |
| Commercial loans | 245 | 331 | 20 |
| Consumer and other loans | 102 | 298 | 109 |
| Total recoveries | \$ 436 | 970 | 184 |
| Net recoveries (charge-offs) | 86 | (679) | 31 |
| Acquisition (1) | -- | 6,091 | -- |
| Provision | 1,195 | 5,192 | 1,165 |
| Balance at end of period | \$50,540 | 49,259 | 39,851 |
| Ratio of net recoveries (charge-offs) to average loans outstanding during the period | 0.003% | -0.025% | 0.001% |

(1) Acquisition of Citizen's Development Company and First National Bank of Morgan

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

| (Dollars in thousands) | March 31, 2007 | | December 31, 2006 | | March 31, |
|------------------------------|----------------|------------------------------|-------------------|------------------------------|-----------|
| | Allowance | Percent of loans in category | Allowance | Percent of loans in category | Allowance |
| Real estate loans | \$ 5,303 | 23.9% | 5,421 | 24.6% | 4,518 |
| Commercial real estate loans | 17,315 | 30.0% | 16,741 | 29.6% | 14,374 |
| Other commercial loans | 18,889 | 27.8% | 18,361 | 28.0% | 13,254 |
| Consumer and other loans | 9,033 | 18.3% | 8,736 | 17.8% | 7,705 |
| Totals | \$50,540 | 100.0% | 49,259 | 100.0% | 39,851 |

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8) Intangible Assets

The following table sets forth information regarding the Company's core deposit intangible and mortgage servicing rights as of March 31, 2007:

| (Dollars in thousands) | Core Deposit Intangible | Mortgage Servicing Rights (1) | Total |
|--------------------------|-------------------------|-------------------------------|-------|
| Gross carrying value | \$23,182 | | |
| Accumulated Amortization | (9,321) | | |

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| | | | |
|---|-------------------|-------|--------|
| Net carrying value | \$13,861 ===== | 1,170 | 15,031 |
| WEIGHTED-AVERAGE AMORTIZATION PERIOD (Period in years) | 10.0 | 9.6 | 10.0 |
| AGGREGATE AMORTIZATION EXPENSE For the three months ended March 31, 2007 | \$ 780 | 49 | 829 |
| ESTIMATED AMORTIZATION EXPENSE For the year ended December 31, 2007 | \$ 3,034 | 109 | 3,143 |
| For the year ended December 31, 2008 | 2,779 | 79 | 2,858 |
| For the year ended December 31, 2009 | 2,486 | 77 | 2,563 |
| For the year ended December 31, 2010 | 2,117 | 74 | 2,191 |
| For the year ended December 31, 2011 | 1,410 | 72 | 1,482 |

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

The following is a summary of activity in goodwill for the three months ended March 31, 2007.

| (Dollars in thousands) | Goodwill |
|---------------------------------------|--------------------|
| ----- | ----- |
| Balance as of December 31, 2006 | \$129,716 |
| Sale of Western's Lewistown branch | (454) |
| Adjustment for FCB-Billings' building | (760) |
| Adjustment for FCB-Billings' loan | 3,801 |
| | ----- |
| Balance as of March 31, 2007 | \$132,303 ===== |

Acquisitions are accounted for using the purchase accounting method as prescribed by Statement of Financial Accounting Standard Number 141, Business Combinations. Purchase accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets. Goodwill is recorded for the residual amount in excess of the net fair value.

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

As a condition of acquiring FCB - Billings, a subsidiary of CDC which was acquired on October 1, 2006, bank regulators required Western to divest of Western's branch in Lewistown, Montana. Western was acquired in February 2001 through the purchase of WesterFed Financial Corporation ("WesterFed"), its parent company. The WesterFed acquisition was accounted for using the purchase method of accounting with a portion of goodwill allocated to Western's Lewistown branch. With the January 2007 sale of the Lewistown branch, \$454 thousand of

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goodwill associated with such branch was removed.

In March 2007, Western adjusted its purchase price allocation for FCB - Billings based upon new information available to management concerning the estimated fair value of property as of the acquisition date. Accordingly, the fair value of certain property was increased by \$1.25 million with a related \$490 thousand increase in deferred tax liability, resulting in a \$760 thousand decrease in goodwill.

In February 2007, Western became aware of a preacquisition contingency in regards to a loan that was impaired as of the October 1, 2006 acquisition of FCB - Billings. After taking into consideration recoveries, the amount of impairment determined to have occurred on or before the acquisition date is estimated to be \$6.3 million with such amount charged off against the loan balance. No further loss is expected as the balance of the loan, after such charge-off, has been collected. On an after tax basis, the increase to goodwill is \$3.8 million. Management continues to pursue additional recoveries and remedies from the guarantors and other third parties. Additional recoveries, if any, occurring on or before September 30, 2007, i.e., the expected end of the allocation period will be an adjustment of goodwill, with any recoveries occurring after such date recorded in earnings in the period in which the recoveries are received or accrued.

9) Deposits

The following table illustrates the amounts outstanding for deposits \$100,000 and greater at March 31, 2007 according to the time remaining to maturity. Included in the CD maturities are brokered CDs in the amount of \$205,447,000.

| (Dollars in thousands) | Certificates of Deposit | Non-Maturity Deposits | Totals |
|-----------------------------|----------------------------|--------------------------|-----------|
| Within three months | \$116,930 | 1,141,038 | 1,257,968 |
| Three to six months | 74,638 | -- | 74,638 |
| Seven to twelve months | 261,621 | -- | 261,621 |
| Over twelve months | 48,229 | -- | 48,229 |
| | ----- | ----- | ----- |
| Totals | \$501,418 | 1,141,038 | 1,642,456 |
| | ===== | ===== | ===== |

10) Advances and Other Borrowings

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

| (Dollars in thousands) | As of and for the three months ended March 31, 2007 | As of and for the year ended December 31, 2006 | As of and for the thr months ende |
|------------------------|--|---|---|
|------------------------|--|---|---|

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| | | | |
|--|-----------|---------|---------|
| ----- | | | |
| FHLB Advances: | | | |
| Amount outstanding at end of period | \$455,625 | 307,522 | 505,209 |
| Average balance | \$419,216 | 487,112 | 522,376 |
| Maximum outstanding at any month-end | \$509,519 | 655,492 | 572,954 |
| Weighted average interest rate | 4.88% | 4.20% | 3.72% |
| Repurchase Agreements: | | | |
| Amount outstanding at end of period | \$162,491 | 170,216 | 132,207 |
| Average balance | \$166,733 | 153,314 | 133,020 |
| Maximum outstanding at any month-end | \$168,395 | 164,338 | 135,661 |
| Weighted average interest rate | 5.17% | 4.32% | 3.93% |

11) 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 March 31, 2007.

| CONSOLIDATED (Dollars in thousands) | Tier 1 (Core) Capital | Tier 2 (Total) Capital | Leverage Capital |
|---|--------------------------|---------------------------|---------------------|
| ----- | ----- | ----- | ----- |
| GAAP Capital | \$ 472,436 | 472,436 | 472,436 |
| Less: Goodwill and intangibles | (146,164) | (146,164) | (146,164) |
| Accumulated other comprehensive | | | |
| Unrealized gain on AFS securities | (3,790) | (3,790) | (3,790) |
| Other adjustments | 81 | 81 | 81 |
| Plus: Allowance for loan losses | -- | 45,632 | -- |
| Subordinated debentures | 118,559 | 118,559 | 118,559 |
| | ----- | ----- | ----- |
| Regulatory capital computed | \$ 441,122 | 486,754 | 441,122 |
| | ===== | ===== | ===== |
| Risk weighted assets | \$3,554,356 | 3,554,356 | |
| | ===== | ===== | |
| Total average assets | | | \$4,365,608 |
| | | | ===== |
| Capital as % of defined assets | 12.41% | 13.69% | 10.10% |
| Regulatory "well capitalized" requirement | 6.00% | 10.00% | 5.00% |
| | ----- | ----- | ----- |
| Excess over "well capitalized" requirement | 6.41% | 3.69% | 5.10% |
| | ===== | ===== | ===== |

12) Federal and State Income Taxes

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

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On January 1, 2007, the Company adopted FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes. There was no cumulative effect recognized in retained earnings as a result of adopting FIN

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48. The Company determined its unrecognized tax benefit to be \$300,012 as of March 31, 2007. In accordance with FIN 48, the Company reclassified such amount from a deferred tax liability to a current tax liability.

If the unrecognized tax benefit amount was recognized, it would decrease the Company's effective tax rate from 34.1 percent to 33.7 percent. Management believes that it is unlikely that the balance of its unrecognized tax benefits will significantly increase or decrease over the next twelve months.

The Company recognizes interest related to unrecognized income tax benefits in interest expense and penalties are recognized in other expense. During the three months ended March 31, 2007 and 2006, the Company recognized \$0 interest expense and recognized \$0 penalty with respect to income tax liabilities. The Company had approximately \$50,000 and \$0 accrued for the payment of interest at March 31, 2007 and 2006, respectively. The Company had accrued \$0 for the payment of penalties at March 31, 2007 and 2006.

13) Comprehensive Income

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

| Dollars in thousands ----- | For the three months ended March 31, ----- | |
|--|--|---------|
| | 2007 | 2006 |
| | ----- | ----- |
| Net earnings | \$16,093 | 13,629 |
| Unrealized holding gain (loss) arising during the period ... | 1,181 | (1,137) |
| Tax benefit expense | (465) | 448 |
| | ----- | ----- |
| Net after tax | 716 | (689) |
| Reclassification adjustment for losses | | |
| included in net earnings | 8 | -- |
| Tax benefit | (3) | -- |
| | ----- | ----- |
| Net after tax | 5 | -- |
| Net unrealized gain (loss) on securities | 721 | (689) |
| | ----- | ----- |
| Total comprehensive income | \$16,814 | 12,940 |
| | ===== | ===== |

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14) Segment Information

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The Company evaluates segment performance internally based on individual bank charters, and thus the operating segments are so defined. The following schedule provides selected financial data for the Company's operating segments. Centrally provided services to the Banks are allocated based on estimated usage of those services. The operating segment identified as "Other" includes the Parent, non-bank units, and elimination of transactions between segments.

| Three months ended and as of March 31, 2007 | | | | | | |
|---|------------------|----------|-------------------|---------|----------|---------------------|
| (Dollars in thousands) | Mountain West | Glacier | First Security | Western | 1st Bank | Big Sky |
| | | | | | | |
| Revenues from external customers | \$ 20,306 | 15,420 | 14,423 | 11,048 | 5,068 | 5,545 |
| Intersegment revenues | 11 | 39 | 277 | 164 | 250 | 1 |
| Expenses | (17,122) | (12,139) | (11,431) | (8,542) | (4,366) | (4,411) |
| Intercompany eliminations | -- | -- | -- | -- | -- | -- |
| Net Earnings | \$ 3,195 | 3,320 | 3,269 | 2,670 | 952 | 1,135 |
| Total Assets | \$933,133 | 801,815 | 792,768 | 505,130 | 313,410 | 282,326 |
| | | | | | | |
| | Whitefish | Citizens | CDC | Morgan | Other | Total Consolidat |
| | | | | | | |
| Revenues from external customers | \$ 3,418 | 3,729 | 2,225 | 1,206 | 100 | 87,612 |
| Intersegment revenues | -- | -- | 215 | 305 | 20,231 | 21,530 |
| Expenses | (2,764) | (3,202) | (1,984) | (1,263) | (174) | (71,519) |
| Intercompany eliminations | -- | -- | -- | -- | (21,530) | (21,530) |
| Net Earnings | \$ 654 | 527 | 456 | 248 | (1,373) | 16,093 |
| Total Assets | \$186,330 | 170,213 | 140,704 | 94,081 | (35,838) | 4,459,013 |
| | | | | | | |

| Three months ended and as of March 31, 2006 | | | | | | |
|---|------------------|---------|-------------------|---------|----------|---------|
| (Dollars in thousands) | Mountain West | Glacier | First Security | Western | 1st Bank | Big Sky |
| | | | | | | |
| Revenues from external customers | \$ 15,924 | 12,452 | 12,258 | 6,880 | 4,102 | 4,918 |
| Intersegment revenues | 6 | 52 | 78 | 17 | 236 | -- |
| Expenses | (13,063) | (9,284) | (9,167) | (5,404) | (3,526) | (3,719) |
| Intercompany eliminations | -- | -- | -- | -- | -- | -- |
| Net Earnings | \$ 2,867 | 3,220 | 3,169 | 1,493 | 812 | 1,199 |
| Total Assets | \$809,759 | 697,266 | 734,092 | 428,263 | 284,398 | 275,158 |
| | | | | | | |

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| | Valley | Whitefish | Citizens | Other | Total Consolidated |
|----------------------------------|-----------|-----------|----------|----------|--------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Revenues from external customers | \$ 4,344 | 2,996 | 3,159 | 75 | 67,108 |
| Intersegment revenues | 33 | -- | -- | 17,374 | 17,796 |
| Expenses | (3,371) | (2,306) | (2,611) | (1,028) | (53,479) |
| Intercompany eliminations | -- | -- | -- | (17,796) | (17,796) |
| | ----- | ----- | ----- | ----- | ----- |
| Net Earnings | \$ 1,006 | 690 | 548 | (1,375) | 13,629 |
| | ===== | ===== | ===== | ===== | ===== |
| Total Assets | \$258,165 | 175,912 | 153,204 | (16,059) | 3,800,158 |
| | ===== | ===== | ===== | ===== | ===== |

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15) Rate/Volume Analysis

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

| | Three Months Ended March 31, 2007 vs. 2006 | | |
|---|---|-------|---------|
| | Increase (Decrease) due to: | | |
| (Dollars in thousands) | Volume | Rate | Net |
| ----- | ----- | ----- | ----- |
| INTEREST INCOME | | | |
| Residential real estate loans | \$ 2,670 | 782 | 3,452 |
| Commercial loans | 8,323 | 2,804 | 11,127 |
| Consumer and other loans | 1,784 | 665 | 2,449 |
| Investment securities and other | (1,374) | 314 | (1,060) |
| | ----- | ----- | ----- |
| Total Interest Income | 11,403 | 4,565 | 15,968 |
| INTEREST EXPENSE | | | |
| NOW accounts | 117 | 503 | 620 |
| Savings accounts | 48 | 32 | 80 |
| Money market accounts | 1,220 | 2,351 | 3,571 |
| Certificates of deposit | 1,031 | 2,213 | 3,244 |
| FHLB advances | (947) | 1,194 | 247 |
| Other borrowings and repurchase agreements | 1,168 | 257 | 1,425 |
| | ----- | ----- | ----- |

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| | | | |
|------------------------|----------|---------|-------|
| Total Interest Expense | 2,637 | 6,550 | 9,187 |
| | ----- | ----- | ----- |
| NET INTEREST INCOME | \$ 8,766 | (1,985) | 6,781 |
| | ===== | ===== | ===== |

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16) Average Balance Sheet

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

AVERAGE BALANCE SHEET

| (Dollars in thousands) | For the Three months ended 3-31-07 | | |
|---|------------------------------------|------------------------------|---------------------------|
| | Average Balance | Interest and Dividends | Average Yield/ Rate |
| ----- | ----- | ----- | ----- |
| ASSETS | | | |
| Residential real estate loans | \$ 769,196 | 14,441 | 7.51% |
| Commercial loans | 1,852,657 | 36,652 | 8.02% |
| Consumer and other loans | 578,166 | 11,314 | 7.94% |
| | ----- | ----- | ----- |
| Total Loans | 3,200,019 | 62,407 | 7.91% |
| Tax - exempt investment securities (1) | 280,205 | 3,452 | 4.90% |
| Other investment securities | 564,311 | 6,061 | 4.31% |
| | ----- | ----- | ----- |
| Total Earning Assets | 4,044,535 | 71,920 | 7.11% |
| | ----- | ----- | ----- |
| Goodwill and core deposit intangible | 143,827 | | |
| Other non-earning assets | 232,081 | | |
| | ----- | ----- | ----- |
| TOTAL ASSETS | \$4,420,443 | | |
| | ===== | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| NOW accounts | \$ 433,209 | 1,091 | 1.02% |
| Savings accounts | 266,579 | 658 | 1.00% |
| Money market accounts | 707,579 | 6,414 | 3.68% |
| Certificates of deposit | 944,895 | 10,644 | 4.57% |
| FHLB advances | 419,216 | 5,042 | 4.88% |
| Repurchase agreements and other borrowed funds | 391,044 | 4,980 | 5.17% |
| | ----- | ----- | ----- |
| Total Interest Bearing Liabilities | 3,162,522 | 28,829 | 3.70% |
| | ----- | ----- | ----- |
| Non-interest bearing deposits | 747,585 | | |
| Other liabilities | 44,651 | | |

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| | | |
|--|-------------|----------|
| Total Liabilities | 3,954,758 | |
| Common stock | 525 | |
| Paid-in capital | 345,966 | |
| Retained earnings | 116,514 | |
| Accumulated other Comprehensive income | 2,680 | |
| Total Stockholders' Equity | 465,685 | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$4,420,443 | |
| Net interest income | | \$43,091 |
| Net interest spread | | 3.41% |
| Net interest margin on average earning assets | | 4.32% |
| Return on average assets (annualized) | | 1.48% |
| Return on average equity (annualized) | | 14.02% |

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

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17) Recent Acquisitions

On April 30, 2007, the Company completed the acquisition of North Side State Bank of Rock Springs, Wyoming, which was merged into 1st Bank, the Company's Evanston, Wyoming subsidiary. As of March 31, 2007, North Side had approximate total assets of \$122 million, loans of \$40 million, and deposits of \$102 million.

Acquisitions are accounted for under the purchase method of accounting. Accordingly, the assets and liabilities of the acquired banks are recorded by the Company at their respective fair values at the date of the acquisition and the results of operations are included with those of the Company since the date of acquisition. The excess of the Company's purchase price over the net fair value of the assets acquired and liabilities assumed, including identifiable intangible assets, is recorded as goodwill.

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

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

Impact of Recently Issued Accounting Standards

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities--including an amendment of FASB Statement No. 115" (Statement 159). Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value and

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amends Statement 115 to, among other things, require certain disclosures for amounts for which the fair value option is applied. This standard is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, or January 1, 2008 for the Company. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of Statement 157. The Company has not completed its assessment of SFAS 159 and the impact, if any, on the consolidated financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company's financial position or results of operations.

Financial Condition

This section discusses the changes in the Statement of Financial Condition items from March 31, 2006 and December 31, 2006, to March 31, 2007.

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| ASSETS (\$ IN THOUSANDS) | March 31, 2007 (unaudited) | December 31, 2006 | March 31 2006 (unaudited) |
|---|----------------------------------|----------------------|---------------------------------|
| Cash on hand and in banks | \$ 123,697 | 136,591 | 105,474 |
| Investment securities, interest bearing deposits, FHLB stock, FRB stock, and fed funds | 864,228 | 862,063 | 953,880 |
| Loans: | | | |
| Real estate | 766,421 | 789,843 | 638,529 |
| Commercial | 1,851,139 | 1,850,417 | 1,435,731 |
| Consumer and other | 590,126 | 574,523 | 493,023 |
| Total loans | 3,207,686 | 3,214,783 | 2,567,283 |
| Allowance for loan losses | (50,540) | (49,259) | (39,851) |
| Total loans net of allowance for loan losses | 3,157,146 | 3,165,524 | 2,527,432 |
| Other assets | 313,942 | 307,120 | 216,003 |
| Total Assets | \$4,459,013 | 4,471,298 | 3,802,789 |

At March 31, 2007, total assets were \$4.459 billion, which is \$12 million, or 0.28 percent, lower than the December 31, 2006 assets of \$4.471 billion, and \$656 million, or 17 percent, greater than the March 31, 2006 assets of \$3.803

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billion.

Total loans decreased \$7 million from December 31, 2006. Commercial loans have increased \$722 thousand, or 0.04 percent, real estate loans decreased \$23 million, or 3 percent, and consumer loans grew by \$16 million, or 3 percent. Total loans have increased \$640 million, or 25 percent, from March 31, 2006, with all loan categories showing increases. Commercial loans grew the most with an increase of \$415 million, or 29 percent, followed by real estate loans which increased \$128 million, or 20 percent, and consumer loans, which are primarily comprised of home equity loans, increasing by \$97 million, or 20 percent.

Investment securities, including interest bearing deposits in other financial institutions and federal funds sold, have increased \$2 million from December 31, 2006, or 0.25 percent, and have declined \$90 million, or 9 percent, from March 31, 2006. Investment securities at March 31, 2007 represented 19% of total assets versus 25% the prior year.

The Company typically sells a majority of long-term mortgage loans originated, retaining servicing only on loans sold to certain lenders. The sale of loans in the secondary mortgage market reduces the Company's risk of holding long-term, fixed rate loans in the loan portfolio. Mortgage loans sold for the three months ended March 31, 2007 and 2006 were \$142 million and \$90 million, respectively. The Company has also been active in generating commercial SBA loans. A portion of some of those loans is sold to other investors. The amount of loans sold and serviced for others at March 31, 2007 was approximately \$169 million.

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| LIABILITIES (\$ IN THOUSANDS) | March 31, 2007 (unaudited) | December 31, 2006 | March 31 2006 (unaudited) | \$ change from December 31, 2006 |
|--|----------------------------------|----------------------|---------------------------------|--|
| Non-interest bearing deposits | \$ 788,426 | 829,355 | 683,201 | (40,929) |
| Interest bearing deposits | 2,410,668 | 2,378,178 | 2,010,198 | 32,490 |
| Advances from Federal Home Loan Bank | 455,625 | 307,522 | 505,209 | 148,103 |
| Securities sold under agreements to repurchase and other borrowed funds | 168,421 | 338,986 | 134,981 | (170,565) |
| Other liabilities | 44,878 | 42,555 | 37,178 | 2,323 |
| Subordinated debentures | 118,559 | 118,559 | 87,631 | -- |
| Total liabilities | \$3,986,577 | 4,015,155 | 3,458,398 | (28,578) |

Non-interest bearing deposits have decreased \$41 million, or 5 percent, since December 31, 2006, and increased by \$105 million, or 15 percent, since March 31, 2006. Increasing non-interest bearing deposits continues to be a primary focus of each of our banks. Interest bearing deposits increased \$32 million from December 31, 2006, with such change attributable to growth in broker originated certificates of deposits. The March 31, 2007 balance of interest bearing deposits includes \$205 million in broker originated CD's and \$2 million in Internet generated National Market CD's. Since March 31, 2006, interest bearing deposits increased \$400 million, or 20 percent, net of a decrease of \$83 million in CD's from broker and Internet sources. Federal Home Loan Bank (FHLB) advances increased \$148 million, and repurchase agreements and other borrowed funds decreased \$171 million from December 31, 2006, primarily from the redemption of

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\$162 million in U. S. Treasury Tax and Loan Term Auction funds. FHLB advances are \$50 million less than the March 31, 2006 balances due primarily to the above described increases in deposits.

Liquidity and Capital Resources

The objective of liquidity management is to maintain cash flows adequate to meet current and future needs for credit demand, deposit withdrawals, maturing liabilities and corporate operating expenses. The principal source of the Company's cash revenues is the dividends received from the Company's banking subsidiaries. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends which would constitute an unsafe or unsound banking practice. The subsidiaries' source of funds is generated by deposits, principal and interest payments on loans, sale of loans and securities, short and long-term borrowings, and net earnings. In addition, all of the banking subsidiaries, except Western Bank of Chinook, N.A., are members of the FHLB. As of March 31, 2007, the Company had \$818 million of available FHLB credit of which \$456 million was utilized. Accordingly, management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each individual institution as well as the Company as a whole.

Lending Commitments

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

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STOCKHOLDERS' EQUITY (\$ IN THOUSANDS EXCEPT PER SHARE DATE)

| | March 31, 2007 (unaudited) | December 31, 2006 | March 31 2006 (unaudited) |
|--|----------------------------------|----------------------|---------------------------------|
| | ----- | ----- | ----- |
| Common equity | \$ 468,646 | 453,074 | 344,259 |
| Accumulated other comprehensive income | 3,790 | 3,069 | 132 |
| | ----- | ----- | ----- |
| Total stockholders' equity | 472,436 | 456,143 | 344,391 |
| Core deposit intangible, net, and goodwill | (146,164) | (144,466) | (86,693) |
| | ----- | ----- | ----- |
| | \$ 326,272 | 311,677 | 257,698 |
| | ===== | ===== | ===== |
| Stockholders' equity to total assets | 10.60% | 10.21% | 9.06% |
| Tangible stockholders' equity to total tangible assets | 7.57% | 7.21% | 6.93% |
| Book value per common share | \$ 8.97 | 8.72 | 7.11 |
| Market price per share at end of quarter | \$ 24.04 | 24.44 | 20.70 |

Total equity and book value per share amounts have increased \$16 million and \$.25 per share, respectively, from December 31, 2006, the result of earnings retention, and stock options exercised. Accumulated other comprehensive income,

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representing net unrealized gains on securities designated as available for sale, increased \$721 thousand during the quarter, such increase primarily a function of interest rate changes and the decreased balance of securities.

| CREDIT QUALITY INFORMATION (\$ IN THOUSANDS) | March 31, 2007 (unaudited) | December 31, 2006 | March 2006 (unaudi |
|--|----------------------------------|----------------------|--------------------------|
| | ----- | ----- | ----- |
| Allowance for loan losses | \$50,540 | \$ 49,259 | \$39,8 |
| Non-performing assets | \$11,306 | 8,894 | 10,3 |
| Allowance as a percentage of non performing assets | 447% | 554% | 38 |
| Non-performing assets as a percentage of total bank assets | 0.25% | 0.19% | 0.2 |
| Allowance as a percentage of total loans | 1.58% | 1.53% | 1.5 |
| Net recoveries (charge-offs) as a percentage of loans | 0.003% | (0.021%) | 0.00 |

Allowance for Loan Loss and Non-Performing Assets

Non-performing assets as a percentage of total assets at March 31, 2007 were at .25 percent, down from .27 percent at March 31, 2006, but increasing slightly from .19 percent at December 31, 2006. The Company ratios compare favorably to the Federal Reserve Bank Peer Group average of .43 percent at December 31, 2006, the most recent information available. The allowance for loan losses was 447 percent of non-performing assets at March 31, 2007, up from 386 percent a year ago. The allowance, including \$6.091 million from acquisitions, has increased \$10.689 million, or 27 percent, from a year ago. The allowance of \$50.540 million, is 1.58 percent of March 31, 2007 total loans outstanding, up slightly from the 1.55 percent a year ago. The first quarter provision for loan losses expense was \$1.195 million, an increase of \$30 thousand from the same quarter in 2006, and was a decrease of \$157 thousand from the fourth quarter of 2006. Recovery of previously charged-off loans exceeded amounts charged-off during the quarter by \$86 thousand. Loan growth, average loan size, and credit quality considerations will determine the level of additional provision expense.

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RESULTS OF OPERATIONS - THE THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2006.

The Company reported net earnings of \$16.093 million, an increase of \$2.5 million, or 18 percent, over the \$13.629 million for the first quarter of 2006. Diluted earnings per share for the quarter of \$.30 is an increase of 7 percent over the diluted earnings per share of \$.28 for the first quarter of 2006. Net earnings was reduced by \$547,230, or \$.01 per share, for share-based compensation expense. Annualized return on average assets and return on average equity for the quarter were 1.48 percent and 14.02 percent, respectively, which compares with prior year returns for the first quarter of 1.48 percent and 16.21 percent.

Included in net earnings for the quarter is a \$1.0 million gain (pre-tax gain of \$1.6 million) from the January 19, 2007 sale of Western Security Bank's Lewistown branch as a condition imposed by bank regulators to complete the acquisition of Citizens Development Company ("CDC"). On January 26, 2007, three of the five CDC subsidiaries, i.e., Citizens State Bank, First Citizens Bank of Billings, and First Citizens Bank, N.A., were merged into Company subsidiaries, i.e., First Security Bank of Missoula, Western Security Bank and Glacier Bank, respectively. Costs associated with merging and converting these CDC

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subsidiaries, the Lewistown branch divestiture and other non-recurring expenses during the quarter were nearly \$500 thousand. During June 2007, the remaining two CDC subsidiaries will be merged together.

REVENUE SUMMARY (UNAUDITED - \$ IN THOUSANDS)

| | Three months ended March 31, | | | |
|--|------------------------------|----------|-----------|----------|
| | 2007 | 2006 | \$ change | % change |
| Net interest income | \$43,091 | \$36,308 | \$6,783 | 19% |
| Non-interest income | | | | |
| Service charges, loan fees, and other fees | 10,085 | 8,217 | 1,868 | 23% |
| Gain on sale of loans | 3,042 | 2,190 | 852 | 39% |
| Loss on sale of investments | (8) | -- | (8) | n/m |
| Other income | 2,573 | 749 | 1,824 | 244% |
| | ----- | ----- | ----- | --- |
| Total non-interest income | 15,692 | 11,156 | 4,536 | 41% |
| | ----- | ----- | ----- | --- |
| | \$58,783 | \$47,464 | \$11,319 | 24% |
| | ===== | ===== | ===== | === |
| Tax equivalent net interest margin | 4.36% | 4.39% | | |
| | ===== | ===== | | |

Net Interest Income

Net interest income for the quarter increased \$6.783 million, or 19 percent, over the same period in 2006, and decreased \$2.258 million, or 5 percent, from the fourth quarter of 2006. Total interest income increased \$15.968 million from the prior year's quarter, or 29 percent, while total interest expense was \$9.185 million, or 47 percent higher. The increase in interest expense is primarily attributable to the volume increase in interest bearing liabilities, and the inverted to flat yield curve on the short end and flat on intermediate to long-term maturities. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.36 percent which was 3 basis points lower than the 4.39 percent result for the first quarter of 2006.

Non-interest Income

Fee income increased \$1.868 million, or 23 percent, over the same period last year, driven primarily by an increased number of loan and deposit accounts from internal growth and acquisitions. Gain on sale of loans increased \$852 thousand, or 39 percent, from the first quarter of last year. Other income of \$2.573 million includes the \$1.6 million gain from the sale of the Lewistown branch. Loan origination activity for housing construction and purchases remains strong in our markets.

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

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| | Three months ended March 31, | | | |
|---------------------------------------|------------------------------|----------|-----------|----------|
| | 2007 | 2006 | \$ change | % change |
| Compensation and employee benefits | \$19,506 | \$15,311 | \$4,195 | 27% |
| Occupancy and equipment expense | 4,458 | 3,491 | 967 | 28% |
| Outsourced data processing | 812 | 724 | 88 | 12% |
| Core deposit intangibles amortization | 780 | 420 | 360 | 86% |
| Other expenses | 7,627 | 5,881 | 1,746 | 30% |
| | ----- | ----- | ----- | --- |
| Total non-interest expense | \$33,183 | \$25,827 | \$7,356 | 28% |
| | ===== | ===== | ===== | === |

Non-interest Expense

Non-interest expense increased by \$7.355 million, or 28 percent, from the same quarter of 2006. Compensation and benefit expense increased \$4.195 million, or 27 percent, which is primarily attributable to increased staffing levels, including staffing from the acquisitions of First National Bank of Morgan and CDC during 2006, new branches, as well as compensation and merit increases for job performance, increased cost of benefits, and overtime associated with the three CDC banks mergers and related conversions of their operating systems in the first quarter of 2007. The number of full-time-equivalent employees has increased from 1,147 to 1,395, a 22 percent increase since March 31, 2006. Occupancy and equipment expense increased \$966 thousand, or 28 percent, reflecting the bank acquisitions, cost of additional branch locations and facility upgrades. Other expenses increased \$1.746 million, or 30 percent, primarily from acquisitions, data conversions, additional marketing expenses, and costs associated with new branch offices. The efficiency ratio (non-interest expense/net interest income + non-interest income) was 56 percent for the 2007 first quarter, up from 54 percent for the 2006 first quarter.

Critical Accounting Policies

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

Effect of inflation and changing prices

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

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company's performance than does the effect of inflation.

Forward Looking Statements

This Form 10-Q includes forward looking statements, which describe management's expectations regarding future events and developments such as future operating results, growth in loans and deposits, continued success of the Company's style of banking and the strength of the local economies in which it operates. Future events are difficult to predict, and the expectations described above are necessarily subject to risk and uncertainty that may cause actual results to differ materially and adversely. In addition to discussions about

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risks and uncertainties set forth from time to time in the Company's public filings, factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, among others, the following possibilities: (1) local, national and international economic conditions are less favorable than expected or have a more direct and pronounced effect on the Company than expected and adversely affect the company's ability to continue its internal growth at historical rates and maintain the quality of its earning assets; (2) changes in interest rates reduce interest margins more than expected and negatively affect funding sources; (3) projected business increases following strategic expansion or opening or acquiring new banks and/or branches are lower than expected; (4) costs or difficulties related to the integration of acquisitions are greater than expected; (5) competitive pressure among financial institutions increases significantly; (6) legislation or regulatory requirements or changes adversely affect the businesses in which the Company is engaged.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company believes that there have not been any material changes in information about the Company's market risk than was provided in the Form 10-K report for the year ended December 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the first quarter 2007, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

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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

There have not been any material changes to the Company's risk factors during the first quarter 2007.

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

- (a) Not Applicable
- (b) Not Applicable
- (c) Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

- (a) Not Applicable
- (b) Not Applicable

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

- (a) None
- (b) Not Applicable
- (c) None
- (d) None

ITEM 5. OTHER INFORMATION

- (a) Not Applicable
- (b) Not Applicable

ITEM 6. EXHIBITS

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

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

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

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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.

May 7, 2007

/s/ Michael J. Blodnick

Michael J. Blodnick
President/CEO

May 7, 2007

/s/ Ron J. Copher

Ron J. Copher
Senior Vice President/CFO