GLACIER BANCORP INC
Form 10-K
February 29, 2008

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007 or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE 000-18911

GLACIER BANCORP, INC.

MONTANA	81-0519541
(State of Incorporation)	(IRS Employer Identification Number)

49 Commons Loop, Kalispell, MT 59901
(Address of Principal Office)

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

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. X Yes   No
--- ---

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes X No
--- ---

Indicate by check mark whether the registrant (i) 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 (ii) has been subject to such filing requirements for the past 90 days. X Yes   No ---   ---

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   X Yes ---

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

Large Accelerated Filer X ---   Accelerated Filer ---

Non-Accelerated Filer ---   Smaller reporting company ---

(Do not check if smaller reporting company)

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

The aggregate market value of the voting common equity held by non-affiliates of the Registrant at June 29, 2007 (the last business day of the most recent second quarter), was $1,045,878,258 (based on the average bid and ask price as quoted on the NASDAQ Global Select Market at the close of business on that date).

As of February 11, 2008, there were issued and outstanding 53,888,926 shares of the Registrant's common stock. No preferred shares are issued or outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the 2008 Annual Meeting Proxy Statement dated March 28, 2008 are incorporated by reference into Part III of this Form 10-K.

GLACIER BANCORP, INC.
FORM 10-K ANNUAL REPORT
For the year ended December 31, 2007
TABLE OF CONTENTS

PART I.

This Annual Report and Form 10-K may be deemed to include forward looking statements, which management believes are a benefit to shareholders. These forward looking statements 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 economy. The words "will," "believe," "expect," "should," and "anticipate" and words of similar construction are intended in part to help identify forward looking statements. Future events are difficult to predict, and the expectations described above are subject to risk and uncertainty that may cause actual results to differ materially and adversely. In addition to discussions about risks and uncertainties set forth from time to time in the Company's filings with the SEC, 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, regional and national 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 strategy to grow its business through internal growth complimented by selective acquisitions 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) deterioration of credit quality that could, among other things, increase defaults and delinquency risks in the loan portfolio; (4) a continued decline in the real estate market and other factors listed under Risk Factors in Item 1A could affect the Company's financial performance and could cause actual results for future periods to differ materially from those anticipated; (5) projected business increases following strategic expansion or opening or acquiring new branches are lower than expected; (6) costs or difficulties related to the integration of acquisitions are greater than expected; (7) competitive pressure among financial institutions increases significantly; (8) legislation or regulatory requirements or changes adversely affect the businesses in which the Company is engaged; and (9) the Company's ability to realize the efficiencies it expects to receive from its investments in personnel and infrastructure.

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Glacier Bancorp, Inc. headquartered in Kalispell, Montana (the "Company"), is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation originally incorporated in 1990. The Company is a regional multi-bank holding company providing commercial banking services from 94 banking offices in Montana, Idaho, Wyoming, Utah and Washington. The Company offers a wide range of banking products and services, including transaction and savings deposits, commercial, consumer, and real estate loans, mortgage origination services, and retail brokerage services. The Company serves individuals, small to medium-sized businesses, community organizations and public entities.

SUBSIDIARIES

The Company is the parent holding company of the following fifteen subsidiaries which consists of eleven bank subsidiaries and four trust subsidiaries. The trust subsidiaries are not consolidated for financial statement purposes.

Bank Subsidiaries

Montana	Idaho
Glacier Bank ("Glacier")	Mountain West Bank ("Mountain West")
First Security Bank of Missoula ("First Security")	Citizens Community Bank ("Citizens")
Western Security Bank ("Western")	
Big Sky Western Bank ("Big Sky")	
Valley Bank of Helena ("Valley")	
Glacier Bank of Whitefish ("Whitefish")	
First Bank of Montana ("First Bank-MT")	
Wyoming	**Utah**
1st Bank ("1st Bank")	First National Bank of Morgan ("Morgan")

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")

The Company formed or acquired Glacier Trust IV, Glacier Trust III, Citizens Trust I, and Glacier Trust II as financing subsidiaries on August 15, 2006, January 31, 2006, April 1, 2005, and March 24, 2004, respectively. The trusts issued preferred securities that entitle the shareholder to receive cumulative cash distributions from payments on Subordinated Debentures of the Company. For additional information regarding the Subordinated Debentures, see Note 10 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data."

The Company provides full service brokerage services (selling products such as stocks, bonds, mutual funds, limited partnerships, annuities and other insurance products) through Raymond James Financial Services, a non-affiliated company. The Company shares in the commissions generated, without devoting significant management and staff time to this portion of the business.

RECENT ACQUISITIONS

The Company's strategy has been to profitably grow its business through internal growth and selective acquisitions. The Company continues to look for profitable expansion opportunities in existing markets and new markets in the Rocky Mountain states. During the last five years, the Company has completed the following acquisitions: On April 30, 2007, North Side State Bank in Rock Springs, Wyoming was acquired and became a branch of 1st Bank. On October 1, 2006, Citizens Development Company ("CDC") and its five banking subsidiaries located across Montana were acquired by the Company. On September 1, 2006, Morgan and its one branch office in Mountain Green, Utah was acquired. On October 31, 2005, First State Bank of Thompson Falls, Montana was acquired and its two branches were merged into First Security. On May 20, 2005, Zions

National Bank branch office in Bonners Ferry, Idaho was acquired and became a branch of Mountain West. On April 1, 2005, Citizens Bank Holding Co. and its subsidiary bank Citizens Community Bank in Pocatello, Idaho were acquired. On February 28, 2005, First National Bank-West Co. and its subsidiary bank 1st Bank in Evanston, Wyoming were acquired.

FDIC, FHLB AND FRB

The Federal Deposit Insurance Corporation ("FDIC") insures each subsidiary bank's deposit accounts. All subsidiary banks are members of the Federal Home Loan Bank ("FHLB") of Seattle, which is one of twelve banks which comprise the Federal Home Loan Bank System. All subsidiaries, with the exception of Mountain West and Citizens are members of the Federal Reserve Bank ("FRB").

BANK LOCATIONS AT DECEMBER 31, 2007

The following is a list of the Parent and subsidiary bank main office locations as of December 31, 2007. See "Item 2. Properties."

Glacier Bancorp, Inc.	49 Commons Loop, Kalispell, MT 59901	(406) 756-4200
Mountain West	125 Ironwood Drive, Coeur d'Alene, Idaho 83814	(208) 765-0284
Glacier	202 Main Street, Kalispell, MT 59901	(406) 756-4200
First Security	1704 Dearborn, Missoula, MT 59801	(406) 728-3115
Western	2812 1st Avenue North, Billings, MT 59101	(406) 371-8200
1st Bank	1001 Main Street, Evanston, WY 82930	(307) 789-3864
Big Sky	4150 Valley Commons, Bozeman, MT, 59718	(406) 587-2922
Valley	3030 North Montana Avenue, Helena, MT 59601	(406) 495-2400
Whitefish	319 East Second Street, Whitefish, MT 59937	(406) 751-4930
Citizens	280 South Arthur, Pocatello, ID 83204	(208) 232-5373
First Bank -MT	224 West Main, Lewistown, MT 59457	(406) 538-7471
Morgan	120 North State, Morgan, UT 84050	(801) 829-3402

FINANCIAL INFORMATION ABOUT SEGMENTS

The following abbreviated organizational chart illustrates the various existing parent and subsidiary relationships at December 31, 2007:


```
                                          |------------------------|
                                          | Glacier Bancorp, Inc.  |
                                          |(Parent Holding Company)|
                                          |------------------------|
                                                      |
|-----------------------| |-------------------------| | |----------------------| |----------------
|  Mountain West Bank   | |       Glacier Bank      | | |  First Security Bank | |  Western Secur
| (ID Commercial bank)  | |   (MT Commercial bank)  | | |      of Missoula     | |  (MT Commercia
|                       | |                         | | | (MT Commercial bank) | |
|-----------------------| |-------------------------| | | ---------------------| |----------------

|-----------------------| |-------------------------| | |----------------------| |----------------
|        1st Bank       | |         Big Sky         | | |      Valley Bank     | |        Glacier
| (WY Commercial bank)  | |      Western Bank       | | |       of Helena      | |        of White
|                       | |     (MT Commercial)     | | | (MT Commercial bank) | |    (MT Commerci
|-----------------------| |-------------------------| | | ---------------------| |----------------
```

```
|-----------------------| |-------------------------| | | ----------------------| |----------------
|Citizens Community Bank| |  First Bank of Montana  | | |  First National Bank | |
| (ID Commercial bank)  | |   (MT Commercial bank)  | | |       of Morgan      | |Glacier Capital
|                       | |                         | | | (UT Commercial bank) | |
|-----------------------| |-------------------------| | |----------------------| |----------------
                                                      |
             |-------------------------| |-------------------------| |----------------------------
             |Glacier Capital Trust III| |Glacier Capital Trust IV | |Citizens (ID) Statutory Tru
             |-------------------------| |-------------------------| |----------------------------
```

The five subsidiaries acquired as result of the acquisition of CDC include Citizens State Bank, First Citizens Bank of Billings, First National Bank of Lewistown, Western Bank of Chinook, and First Citizens Bank, N.A. On January 26, 2007, Citizens State Bank, First Citizens Bank of 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. On June 21, 2007, Western Bank of Chinook was merged into First National Bank of Lewistown and renamed First Bank-MT. As a result of the CDC mergers into the Company subsidiaries, the financial reporting activity for the year ended December 31, 2006 has been reclassified to and included in the Company subsidiary into which each CDC bank was merged, unless otherwise noted.

For information regarding the holding company, as separate from the subsidiaries, see "Item 7 - Management's Discussion & Analysis" and Note 16 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data."

The business of the Company's banking subsidiaries (collectively referred to hereafter as the "Banks") consists primarily of attracting deposit accounts from the general public and originating commercial, residential, installment and other loans. The Banks' principal sources of revenue are interest on loans, loan origination fees, fees on deposit accounts and interest and dividends on investment securities. The principal sources of expenses are interest on deposits, FHLB advances, repurchase agreements, subordinated debentures, and other borrowings, as well as general and administrative expenses.

BUSINESS SEGMENT RESULTS

The Company evaluates segment performance internally based on individual banking subsidiaries, 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 company, nonbank units, and eliminations of transactions between segments.

	Mountain West			Glacier		
(Dollars in thousands)	2007	2006	2005	2007	2006	2005
Condensed Income Statements						
Net interest income	41,115	36,133	29,607	33,008	29,721	26,50
Noninterest income	19,861	16,442	15,812	11,540	10,203	9,13
Total revenues	60,976	52,575	45,419	44,548	39,924	35,64

Provision for loan losses	(2,225)	(1,500)	(1,897)	(1,400)	(900)	(1,50
Core deposit intangible expense	(208)	(219)	(214)	(415)	(286)	(25
Other noninterest expense	(36,745)	(31,057)	(26,006)	(20,805)	(18,061)	(16,01
Pretax earnings	21,798	19,799	17,302	21,928	20,677	17,87
Income tax expense	(7,701)	(6,163)	(5,886)	(7,642)	(7,040)	(6,09
Net income	14,097	13,636	11,416	14,286	13,637	11,78
Average Balance Sheet Data						
Total assets	966,955	843,438	706,711	842,306	752,013	678,78
Total loans	774,784	634,745	473,639	645,997	538,696	442,15
Total deposits	693,768	622,937	504,063	497,757	463,339	398,96
Stockholders' equity	109,378	89,651	74,357	92,962	77,044	67,51
End of Year Balance Sheet Data						
Total assets	1,038,294	918,985	779,538	903,440	801,792	731,46
Loans, net	836,426	701,390	544,429	708,208	598,609	462,76
Total deposits	666,330	693,323	558,280	473,594	491,361	424,73
Stockholders' equity	114,538	98,954	80,008	96,252	87,844	69,25
Performance Ratios						
Return on average assets	1.46%	1.62%	1.62%	1.70%	1.81%	1.7
Return on average equity	12.89%	15.21%	15.35%	15.37%	17.70%	17.4
Efficiency ratio	60.60%	59.49%	57.73%	47.63%	45.95%	45.6
Regulatory Capital Ratios & Other						
Tier I risk-based capital ratio	10.45%	10.39%	9.43%	10.75%	11.12%	11.7
Total risk-based capital ratio	11.67%	11.56%	10.63%	11.92%	12.27%	12.9
Leverage capital ratio	9.01%	8.52%	7.38%	9.62%	9.43%	9.3
Full time equivalent employees	354	304	268	221	198	18
Locations	30	25	22	14	15	1

	Western			1st Bank		
(Dollars in thousands)	2007	2006	2005	2007	2006	2005
Condensed Income Statements						
Net interest income	19,069	16,299	14,522	16,861	11,525	8,179
Noninterest income	8,792	5,645	3,966	3,399	2,939	2,340
Total revenues	27,861	21,944	18,488	20,260	14,464	10,519
Provision for loan losses	--	--	--	(585)	(300)	(251)
Core deposit intangible expense	(675)	(329)	(224)	(531)	(408)	(371)
Other noninterest expense	(15,972)	(11,748)	(9,741)	(10,490)	(8,153)	(5,636)
Pretax earnings	11,214	9,867	8,523	8,654	5,603	4,261
Income tax expense	(4,129)	(1,797)	(2,488)	(3,157)	(2,358)	(1,401)
Net income	7,085	8,070	6,035	5,497	3,245	2,860
Average Balance Sheet Data						
Total assets	544,888	467,996	440,771	416,012	305,340	235,200
Total loans	322,845	274,394	224,213	207,429	133,541	85,723
Total deposits	373,682	297,780	222,765	333,524	237,589	189,723
Stockholders' equity	85,581	58,869	50,054	59,476	42,308	34,932

End of Year Balance Sheet Data						
Total assets	508,729	591,378	431,640	456,273	324,560	304,196
Loans, net	321,533	364,899	231,817	246,478	152,197	111,682
Total deposits	345,273	395,245	269,494	365,906	255,834	244,336
Stockholders' equity	83,226	82,764	49,458	67,003	43,911	41,577
Performance Ratios						
Return on average assets	1.30%	1.72%	1.37%	1.32%	1.06%	1.22%
Return on average equity	8.28%	13.71%	12.06%	9.24%	7.67%	8.19%
Efficiency ratio	59.75%	55.04%	53.90%	54.40%	59.19%	57.11%
Regulatory Capital Ratios & Other						
Tier I risk-based capital ratio	14.22%	15.12%	14.97%	11.27%	10.24%	11.59%
Total risk-based capital ratio	15.48%	16.39%	16.22%	12.50%	11.49%	12.85%
Leverage capital ratio	11.18%	11.55%	10.36%	7.41%	6.50%	6.28%
Full time equivalent employees	161	115	112	127	94	87
Locations	8	11	7	8	7	7

	Valley			Whitefish		
(Dollars in thousands)	2007	2006	2005	2007	2006	2005
Condensed Income Statements						
Net interest income	10,680	9,893	9,444	7,262	6,958	6,527
Noninterest income	4,655	3,938	3,509	1,933	1,654	1,916
Total revenues	15,335	13,831	12,953	9,195	8,612	8,443
Provision for loan losses	(405)	(485)	(375)	(180)	(180)	(300)
Core deposit intangible expense	(42)	(43)	(48)	--	--	--
Other noninterest expense	(8,222)	(7,649)	(6,787)	(4,426)	(4,003)	(3,428)
Pretax earnings	6,666	5,654	5,743	4,589	4,429	4,715
Income tax (expense) benefit	(1,955)	(1,626)	(1,783)	(1,652)	(1,476)	(1,698)
Net income	4,711	4,028	3,960	2,937	2,953	3,017
Average Balance Sheet Data						
Total assets	277,076	261,959	245,486	190,114	182,595	167,704
Total loans	191,494	167,735	135,394	151,708	138,884	115,030
Total deposits	189,547	185,475	160,948	113,112	125,640	90,212
Stockholders' equity	25,951	23,166	21,201	18,229	15,967	14,763
End of Year Balance Sheet Data						
Total assets	282,643	269,442	254,437	197,672	187,704	174,069
Loans, net	195,682	177,507	151,204	155,045	142,480	125,512
Total deposits	187,657	183,233	174,059	105,596	121,100	112,790
Stockholders' equity	27,323	24,247	21,809	18,995	16,918	14,847
Performance Ratios						
Return on average assets	1.70%	1.54%	1.61%	1.54%	1.62%	1.80%
Return on average equity	18.15%	17.39%	18.68%	16.11%	18.49%	20.44%
Efficiency ratio	53.89%	55.61%	52.77%	48.13%	46.48%	40.60%
Regulatory Capital Ratios &						

Other						
Tier I risk-based capital ratio	11.68%	11.21%	11.56%	10.96%	11.50%	10.06%
Total risk-based capital ratio	12.93%	12.46%	12.79%	12.12%	12.75%	11.21%
Leverage capital ratio	9.03%	8.14%	8.00%	9.63%	8.97%	8.44%
Full time equivalent employees	80	77	71	53	43	40
Locations	6	6	6	2	2	2

	First Bank-MT			Morgan		
(Dollars in thousands)	2007	2006	2005	2007	2006	2005
Condensed Income Statements						
Net interest income	6,308	1,580	--	3,274	1,090	--
Noninterest income	736	200	--	813	318	--
Total revenues	7,044	1,780	--	4,087	1,408	--
Provision for loan losses	(20)	--	--	(45)	(22)	--
Core deposit intangible expense	(451)	(115)	--	(157)	(54)	--
Other noninterest expense	(3,426)	(691)	--	(2,525)	(651)	--
Pretax earnings	3,147	974	--	1,360	681	--
Income tax (expense) benefit	(1,395)	(334)	--	(325)	(248)	--
Net income	1,752	640	--	1,035	433	--
Average Balance Sheet Data						
Total assets	142,401	36,768	--	94,437	31,734	--
Total loans	98,402	23,860	--	47,972	15,028	--
Total deposits	107,491	29,487	--	72,776	24,729	--
Stockholders' equity	26,557	6,202	--	20,466	6,873	--
End of Year Balance Sheet Data						
Total assets	149,483	148,097	--	95,054	95,991	--
Loans, net	98,897	90,595	--	52,322	45,302	--
Total deposits	113,692	116,512	--	73,375	75,348	--
Stockholders' equity	26,941	25,766	--	20,520	20,308	--
Performance Ratios						
Return on average assets	1.23%	1.74%	0.00%	1.10%	1.36%	0.00%
Return on average equity	6.60%	10.32%	0.00%	5.06%	6.30%	0.00%
Efficiency ratio	55.04%	45.28%	0.00%	65.62%	50.07%	0.00%
Regulatory Capital Ratios & Other						
Tier I risk-based capital ratio	10.79%	10.88%	0.00%	14.10%	15.63%	0.00%
Total risk-based capital ratio	12.04%	12.14%	0.00%	15.35%	16.88%	0.00%
Leverage capital ratio	9.26%	9.01%	0.00%	10.41%	10.29%	0.00%
Full time equivalent employees	35	122	0	26	23	0
Locations	2	2	0	2	2	0

7

Consolidation

(Dollars in thousands)	2007	2006	2005
Condensed Income Statements			
Net interest income	183,469	158,288	130,007
Noninterest income	64,818	51,842	44,626
Total revenues	248,287	210,130	174,633
Provision for loan losses	(6,680)	(5,192)	(6,023)
Core deposit intangible expense	(3,202)	(2,024)	(1,470)
Other noninterest expense	(134,715)	(110,526)	(89,456)
Pretax earnings	103,690	92,388	77,684
Income tax (expense) benefit	(35,087)	(31,257)	(25,311)
Net income	68,603	61,131	52,373
Average Balance Sheet Data			
Total assets	4,606,082	4,015,088	3,451,663
Total loans	3,360,327	2,772,525	2,114,041
Total deposits	3,265,755	2,779,630	2,159,934
Stockholders' equity	496,393	382,095	297,324
End of Year Balance Sheet Data			
Total assets	4,817,330	4,471,298	3,708,975
Loans, net	3,557,122	3,165,524	2,397,187
Total deposits	3,184,478	3,207,533	2,534,712
Stockholders' equity	528,576	456,143	333,239
Performance Ratios			
Return on average assets	1.49%	1.52%	1.52%
Return on average equity	13.82%	16.00%	17.62%
Efficiency ratio	55.55%	53.56%	52.07%
Regulatory Capital Ratios & Other			
Tier I risk-based capital ratio	12.17%	12.10%	12.00%
Total risk-based capital ratio	13.42%	13.35%	13.26%
Leverage capital ratio	10.48%	9.77%	9.17%
Full time equivalent employees	1480	1356	1125
Locations	94	93	75

INTERNET ACCESS

Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the Company's website (www.glacierbancorp.com) as soon as reasonably practicable after the Company has filed the material with, or furnished it to, the Securities and Exchange Commission ("SEC"). Copies can also be obtained by accessing the SEC's website (www.sec.gov).

MARKET AREA

The Company has 94 locations, of which 9 are loan/admin offices, in thirty-one counties within five states including Montana, Idaho, Wyoming, Utah, and Washington. The Company has forty-six offices that serve northwest and west central Montana. In Idaho, there are twenty-two locations serving southeast, northern and south central Idaho. In Wyoming, there are eight locations concentrated in southwest Wyoming. In Utah there are four locations. In

Washington, there are three locations.

The market area's economic base primarily focuses on tourism, construction, manufacturing, service industry, and health care. The tourism industry is highly influenced by two national parks, several ski resorts, large lakes, and rural scenic areas. Construction results from the high population growth that has occurred in the market areas, in particular Idaho and western Montana.

COMPETITION

Based on the FDIC summary of deposits survey as of June 30, 2007, the Company has approximately 20 percent of the total FDIC insured deposits in the thirteen counties that it services in Montana. In Idaho, the Company has approximately 6 percent of the deposits in the nine counties that it services. In Wyoming, 1st Bank has 25 percent of the deposits in the three counties it services. In Utah, the Company has 13 percent of the deposits in the three counties it services. In Washington, Mountain West has 61 percent of the deposits in Pend Oreille County.

There are a large number of depository institutions including savings banks, commercial banks, and credit unions in the counties in which the Company has offices. The Banks, like other depository institutions, are operating in a rapidly changing environment. Non-depository financial service institutions, primarily in the securities and insurance industries, have become competitors for retail savings and investment funds. Mortgage banking/brokerage firms are actively competing for residential mortgage business. In addition to offering competitive interest rates, the principal methods used by banking institutions to attract deposits include the offering of a variety of services including on-line banking and convenient office locations and business hours. The primary factors in competing for loans are interest rates and rate adjustment provisions, loan maturities, loan fees, and the quality of service to borrowers and brokers.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

AVERAGE BALANCE SHEET

The following three-year 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.

AVERAGE BALANCE SHEET

	For the year ended 12-31-07			For the year ended 12-31-06		
(Dollars in Thousands)	Average Balance	Interest and Dividends	Average Yield/ Rate	Average Balance	Interest and Dividends	Average Yield/ Rate
ASSETS						
Residential First Mortgage	$ 798,841	59,664	7.47%	$ 702,530	52,219	7.43%
Commercial Loans	1,957,252	157,644	8.05%	1,550,481	119,215	7.69%

Consumer and Other Loans	604,234	48,105	7.96%	519,514	40,284	7.75%
Total Loans	3,360,327	265,413	7.90%	2,772,525	211,718	7.64%
Tax-exempt Investment Securities (1)	272,042	13,427	4.94%	282,883	13,901	4.91%
Taxable Investment Securities	574,913	25,920	4.51%	652,176	27,707	4.25%
Total Earning Assets	4,207,282	304,760	7.24%	3,707,584	253,326	6.83%
Goodwill and Intangibles	149,934			102,789		
Non-Earning Assets	248,866			204,715		
TOTAL ASSETS	$4,606,082			$4,015,088		
LIABILITIES						
NOW Accounts	$ 461,341	4,708	1.02%	$ 389,042	2,976	0.77%
Savings Accounts	268,175	2,679	1.00%	243,333	2,336	0.96%
Money Market Demand Accounts	754,995	27,248	3.61%	584,467	18,043	3.09%
Certificate Accounts	1,000,797	46,824	4.68%	860,092	34,792	4.05%
Advances from FHLB	382,243	18,897	4.94%	487,112	20,460	4.20%
Securities Sold Under agreements to Reprchase and Other Borrowed Funds	412,237	20,935	5.08%	329,787	16,431	4.98%
Total Interest Bearing Liabilities	3,279,788	121,291	3.70%	2,893,833	95,038	3.28%
Non-interest Bearing Deposits	781,447			702,696		
Other Liabilities	48,454			36,464		
Total Liabilities	4,109,689			3,632,993		
STOCKHOLDERS' EQUITY						
Common Stock	532			497		
Paid-In Capital	361,003			291,015		
Retained Earnings	132,352			90,624		
Accumulated Other Comprehensive Income (Loss)	2,506			(41)		
Total Stockholders' Equity	496,393			382,095		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$4,606,082			$4,015,088		
NET INTEREST INCOME		$183,469			$158,288	
NET INTEREST SPREAD			3.54%			3.55%
NET INTEREST MARGIN			4.36%			4.27%
NET INTEREST MARGIN (TAX EQUIVALENT)			4.50%			4.44%
RETURN ON AVERAGE ASSETS (2)			1.49%			1.52%
RETURN ON AVERAGE EQUITY (3)			13.82%			16.00%

(1) Without tax effect on non-taxable securities income of 5,944, 6,154 and 6,189 for the years ended December 31, 2007, 2006, and 2005, respectively.

(2) Net income divided by average total assets

(3) Net income divided by average equity

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.

	Years Ended December 31, 2007 vs. 2006 Increase (Decrease) due to:			Years Ended December 31, 2006 vs. 2005 Increase (Decrease) due to:		
(dollars in thousands)	Volume	Rate	Net	Volume	Rate	Net
INTEREST INCOME						
Real Estate Loans	$ 7,159	$ 286	$ 7,445	$13,203	$ 4,510	$17,713
Commercial Loans	31,276	7,153	38,429	24,742	13,114	37,856
Consumer and Other Loans	6,570	1,251	7,821	7,054	4,534	11,588
Investment Securities	(3,920)	1,659	(2,261)	(6,428)	2,612	(3,816)
Total Interest Income	41,085	10,349	51,434	38,571	24,770	63,341
INTEREST EXPENSE						
NOW Accounts	553	1,179	1,732	201	1,886	2,087
Savings Accounts	238	105	343	186	1,019	1,205
Money Market Accounts	5,264	3,941	9,205	1,578	8,912	10,490
Certificate Accounts	5,692	6,340	12,032	8,305	10,355	18,660
FHLB Advances	(4,405)	2,842	(1,563)	(5,956)	4,927	(1,029)
Other Borrowings and Repurchase Agreements	4,109	395	4,504	1,854	1,793	3,647
Total Interest Expense	11,451	14,802	26,253	6,168	28,892	35,060
NET INTEREST INCOME	$29,634	$(4,453)	$25,181	$32,403	$(4,122)	$28,281

Net interest income increased $25 million in 2007 over 2006. The increase was primarily due to increases in loan volumes and loan rates which combined outpaced the increase in deposit and borrowing rates. For additional information see "Item 7 - Management's Discussion and Analysis".

INVESTMENT ACTIVITIES

It has generally been the Company's policy to maintain a liquid portfolio only slightly above policy limits because higher yields can generally be obtained from loan originations than from short-term deposits and investment securities.

Liquidity levels may be increased or decreased depending upon yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of the level of yield that will be available in the future.

The Company's investment securities are generally classified as available for sale and are carried at estimated fair value with unrealized gains or losses, net of tax, reflected as an adjustment to stockholders' equity.

The Company uses the federal statutory rate of 35 percent in calculating its tax equivalent yield. Approximately $270 million of the investment portfolio is comprised of tax exempt investments which is a decrease of $24 million from the prior year.

For information about the Company's equity investment in the stock of the FHLB of Seattle, see "Sources of Funds - Advances and Other Borrowings".

For additional information, see "Item 7 - Management's Discussion & Analysis" and Note 3 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data".

LENDING ACTIVITY

GENERAL

The Banks focus their lending activity primarily on several types of loans: 1) first-mortgage, conventional loans secured by residential properties, particularly single-family, 2) installment lending for consumer purposes (e.g., auto, home equity, etc.), and 3) commercial lending that concentrates on targeted businesses. "Item 7 - Management's Discussion & Analysis" and Note 4 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data" contain more information about the loan portfolio.

LOAN PORTFOLIO COMPOSITION

The following table summarizes the Company's loan portfolio:

(dollars in thousands)

	At 12/31/2007		At 12/31/2006		At 12/31/2005		12
TYPE OF LOAN	Amount	Percent	Amount	Percent	Amount	Percent	Amount
REAL ESTATE LOANS:							
Residential first mortgage	$ 689,238	19.38%	$ 758,921	23.97%	$ 589,260	24.58%	$ 382,7
Held for sale	$ 40,123	1.13%	$ 35,135	1.11%	$ 22,540	0.94%	$ 14,4
Total	$ 729,361	20.51%	$ 794,056	25.08%	$ 611,800	25.52%	$ 397,2
COMMERCIAL LOANS:							
Real estate	$1,617,076	45.46%	$1,165,617	36.83%	$ 935,460	39.02%	$ 639,7
Other commercial	$ 636,351	17.89%	$ 691,667	21.85%	$ 425,236	17.74%	$ 353,3
Total	$2,253,427	63.35%	$1,857,284	58.68%	$1,360,696	56.76%	$ 993,0

CONSUMER AND OTHER LOANS:							
Consumer	$ 206,724	5.81%	$ 218,640	6.91%	$ 175,503	7.32%	$ 95,6
Home equity	$ 432,217	12.15%	$ 356,477	11.26%	$ 295,992	12.35%	$ 248,6
Total	$ 638,941	17.96%	$ 575,117	18.17%	$ 471,495	19.67%	$ 344,3
Net deferred loan fees, premiums and discounts	($10,194)	-0.29%	($11,674)	-0.37%	($ 8,149)	-0.34%	($ 6,3
Allowance for loan and lease losses	($54,413)	-1.53%	($49,259)	-1.56%	($38,655)	-1.61%	($26,4
LOANS RECEIVABLE, NET	$3,557,122	100.00%	$3,165,524	100.00%	$2,397,187	100.00%	$1,701,8

LOAN PORTFOLIO MATURITIES OR REPRICING TERM

The stated maturities or first repricing term (if applicable) for the loan portfolio at December 31, 2007 was as follows:

(dollars in thousands)	Real Estate	Commercial	Consumer	Totals
Variable Rate Maturing or Repricing in:				
One year or less	$ 236,701	892,892	199,675	1,329,268
One to five years	109,228	533,225	57,080	699,533
Thereafter	5,072	50,703	122	55,897
Fixed Rate Maturing or Repricing in:				
One year or less	211,959	362,179	139,735	713,873
One to five years	127,934	335,226	230,441	693,601
Thereafter	38,467	79,202	11,888	129,557
Totals	$ 729,361	2,253,427	638,941	3,621,729

REAL ESTATE LENDING

The Company's lending activities consist of the origination of both construction and permanent loans on residential and commercial real estate. The Company actively solicits real estate loan applications from real estate brokers, contractors, existing customers,

12

customer referrals, and walk-ins to their offices. The Company's lending policies generally limit the maximum loan-to-value ratio on residential mortgage loans to 90 percent of the lesser of the appraised value or purchase price or above 90 percent of the loan if insured by a private mortgage insurance company. The Company also provides interim construction financing for single-family dwellings. These loans are generally supported by a term take out commitment. The Company also makes lot acquisition loans to borrowers who intend to construct their primary residence on the respective lot. These loans are generally for a term of three to five years and are secured by the developed lot.

LAND ACQUISITION AND DEVELOPMENT LOANS

Where real estate market conditions warrant, the Company makes land acquisition and development loans on properties intended for residential and commercial use. These loans are generally made for a term of 18 months to two years and secured by the developed property with a loan-to-value not to exceed the lesser of 75 percent of cost or 65 percent of resale appraisal value upon completion of the improvements. The loans are made to borrowers with real estate development experience and appropriate financial strength. Generally it is required a certain percentage of the development be pre-sold or that construction and term take out commitments are in place prior to funding the loan.

The combined total of lot acquisition loans to borrowers who intend to construct a primary residence on the lot, and other construction and land acquisition and development loans is $1,020 million and represents 28.3 percent of the total loans as of December 31, 2007. The December 31, 2006 total was $789 million, or 24.5 percent of total loans. Increases incurred in each subsidiary with the largest amounts outstanding centered in the high growth areas of Western Montana, and Couer d'Alene, Sandpoint, and Boise Idaho. The geographic dispersion, in addition to the normal credit standards described in the above paragraphs, further mitigates the risk of loss in this portfolio.

RESIDENTIAL BUILDER GUIDANCE LINES

For borrowers located in strong real estate markets, the Company provides Builder Guidance Lines that are comprised of pre-sold and spec-home construction and lot acquisition loans. The spec-home construction and lot acquisition loans are limited to a set number and maximum amount. Generally the individual loans will not exceed a one year maturity. The homes under construction are inspected on a regular basis and advances made on a percentage of completion basis.

COMMERCIAL REAL ESTATE LOANS

Loans are made to purchase, construct and finance commercial real estate properties. These loans are generally made to borrowers who own and will occupy the property. Loans to finance investment or income properties are made, but require additional equity and a higher debt service coverage margin commensurate with the specific property and projected income.

CONSUMER LENDING

The majority of consumer loans are secured by real estate, automobiles, or other assets. The Banks intend to continue making such loans because of their short-term nature, generally between three months and five years. Moreover, interest rates on consumer loans are generally higher than on mortgage loans. The Banks also originate second mortgage and home equity loans, especially to its existing customers in instances where the first and second mortgage loans are less than 80 percent of the current appraised value of the property.

CREDIT RISK MANAGEMENT

The Company's credit risk management includes stringent credit policies, individual loan approval limits and committee approval of larger loan requests. Management practices also includes regular internal and external credit examinations, management review of loans experiencing deterioration of credit quality, quarterly monitoring of all spec home loans, semi-annual review of loans by industry and periodic interest rate shock testing.

LOAN APPROVAL LIMITS

Individual loan approval limits have been established for each lender based on the loan types and experience of the individual. Each subsidiary bank has an Officer Loan Committee consisting of senior lenders and members of senior management. The Officer Loan Committee for each bank has approval authority up to its respective Bank's Board of Directors loan approval authority. The Banks' Board of Directors approval authority is $2,000,000 at Morgan, 1st Bank, First Bank-MT, Big Sky, Citizens, and Valley and $3,500,000 at First Security, Glacier, Whitefish, Mountain West and Western. Loans over these limits up to $10,000,000 are subject to approval by the Executive Loan Committee consisting of the bank's senior loan officers and the Company's Credit Administrator. Loans greater than $10,000,000 are subject to approval by the Company's Board of Directors. Under banking laws, loans to one borrower and related entities are limited to a set percentage of the unimpaired capital and surplus of the bank.

LOAN PURCHASES AND SALES

Fixed-rate, long-term mortgage loans are generally sold in the secondary market. The Company is active in the secondary market, primarily through the origination of conventional, FHA and VA residential mortgages. The sale of loans in the secondary mortgage market reduces the Company's risk of holding long-term, fixed-rate loans during periods of rising rates. The sale of loans also allows the Company to make loans during periods when funds are not otherwise available for lending purposes. In connection with conventional loan sales, the Company typically sells a majority of mortgage loans originated, with servicing released, retaining servicing only on loans sold to individual investors. The Company has also been very active in generating commercial SBA loans, and other commercial loans, with a portion of those loans sold to investors. As of December 31, 2007, loans serviced for others aggregated approximately $177 million. The Company has not originated any type of subprime mortgages, either for the loan portfolio or for sale to investors. In addition, the Company has not purchased securities that were collateralized with subprime mortgages. The Company did not purchase loans outside the Company or originate loans outside the existing geographic area.

LOAN ORIGINATION AND OTHER FEES

In addition to interest earned on loans, the Company receives fees for originating loans. Loan fees generally are a percentage of the principal amount of the loan and are charged to the borrower, and are normally deducted from the proceeds of the loan. Loan origination fees are generally 1.0 percent to 1.5 percent on residential mortgages and .5 percent to 1.5 percent on commercial loans. Consumer loans require a flat fee as well as a minimum interest amount. The Company also receives other fees and charges relating to existing loans, which include charges and fees collected in connection with loan modifications and tax service.

NON-PERFORMING LOANS AND ASSET CLASSIFICATION

Loans are reviewed on a regular basis and are placed on a non-accrual status when the collection of the contractual principal or interest is unlikely. The Company typically places loans on non-accrual when principal or interest is due and has remained unpaid for 90 days or more unless the loan is well secured by collateral having realizable value sufficient to discharge 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 either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate repayment of the loan. Interest accruals are resumed 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.

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

NON-PERFORMING ASSETS

(dollars in thousands)	At 12/31/07	At 12/31/06	At 12/31/05	At 12/31/04	At 12/31/03
NON-ACCRUAL LOANS:					
Mortgage loans	$ 934	$1,806	$ 726	$ 847	$ 1,129
Commercial loans	7,192	3,721	4,045	4,792	8,246
Consumer loans	434	538	481	311	687
Total	8,560	6,065	5,252	5,950	10,062
4ACCRUING LOANS 90 DAYS OR MORE OVERDUE:					
Mortgage loans	840	554	1,659	179	379
Commercial loans	1,216	638	2,199	1,067	1,798
Consumer loans	629	153	647	396	242
Total	2,685	1,345	4,505	1,642	2,419
Real estate and other assets owned	2,043	1,484	332	2,016	587
TOTAL NON-PERFORMING LOANS AND REAL ESTATE AND OTHER ASSETS OWNED	13,288	8,894	10,089	9,608	13,068
AS A PERCENTAGE OF TOTAL ASSETS	0.27%	0.19%	0.26%	0.32%	0.48%
Interest Income (1)	$ 683	$ 462	$ 359	$ 372	$ 665

(1) Amount of interest that would have been recorded on loans accounted for on a non-accrual basis as of the end of each period if such loans had been current for the entire period.

14

Non-performing assets as a percentage of total assets at December 31, 2007 were ..27 percent versus .19 percent at the same time last year, which compares favorably to the Federal Reserve Bank Peer Group average of .67 percent at September 30, 2007, the most recent information available. The allowance for loan and lease losses was 409 percent of non-performing assets at December 31, 2007, down from 554 percent a year ago.

With the continuing change in loan mix from residential real estate to commercial and consumer loans, which historically have greater credit risk, the Company has increased the balance in the allowance for loan and lease losses account. The allowance balance has increased $5,154,000, or 10 percent, to $54,413,000, which is 1.51 percent of total loans outstanding, down from 1.53 percent of loans at December 31, 2006. Of the $5,154,000 increase, $639,000 is the result of loans acquired in the North Side acquisition.

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans were $12,152,000 and $6,065,000 as of December 31, 2007 and 2006, respectively.

ALLOWANCE FOR LOAN AND LEASE LOSSES

The Allowance for Loan and Lease Losses ("ALLL") is maintained at a level that allows for the absorption of loan and lease losses known and inherent within the Banks' loan portfolios. The Company is committed to the early recognition of problem loans and to a strong conservative ALLL.

Determining the adequacy of the ALLL involves a high degree of judgment and is inevitably imprecise. Accordingly, the ALLL is maintained within a range of estimated losses. The adequacy of the ALLL is based on management's current judgment about the credit quality of the loan portfolio and considers all known relevant internal and external environmental factors that affect loan losses. An evaluation of the adequacy of the ALLL is conducted on a quarterly basis by the subsidiary banks. The evaluation is well documented and approved by each subsidiary bank's Board of Directors and reviewed by the Company's Board of Directors. In addition, the policy and procedures for determining the balance of the ALLL are reviewed annually by each subsidiary bank's Board of Directors and the Company's Board of Directors.

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

The ALLL methodology is designed to reasonably estimate the probable loan and lease losses within the Banks' loan portfolios. At the end of each quarter, the Banks analyze the loan and lease portfolio and maintain an ALLL at a level that is appropriate and determined in accordance with generally accepted accounting principles (GAAP) in the United States of America. The ALLL balance covers estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of the loan and lease portfolios.

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 the lower of the unpaid principal balance or estimated fair value, not to exceed estimated net realizable value. Any write-down at the time of recording real estate owned is charged to the allowance for loan and lease losses. Any subsequent write-downs are charged to current expense.

For additional information regarding the ALLL, its relation to the provision for loan and lease losses and risk related to asset quality, see Note 4 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data."

LOAN LOSS EXPERIENCE

(Dollars in Thousands)	2007	2006	2005	2004	2003
	Years ended December 31,				
BALANCE AT BEGINNING OF PERIOD	$49,259	38,655	26,492	23,990	20,944
CHARGE-OFFS:					
Residential real estate	(306)	(14)	(115)	(419)	(416)
Commercial loans	(2,367)	(1,187)	(744)	(1,150)	(912)
Consumer loans	(714)	(448)	(539)	(776)	(1,078)
Total charge offs	$(3,387)	(1,649)	(1,398)	(2,345)	(2,406)
RECOVERIES:					
Residential real estate	208	341	82	171	126
Commercial loans	656	331	414	120	274
Consumer loans	358	298	415	361	284
Total recoveries	$ 1,222	970	911	652	684
CHARGE-OFFS, NET OF RECOVERIES	(2,165)	(679)	(487)	(1,693)	(1,722)
Acquisitions (1)	639	6,091	6,627	-	959
PROVISION FOR LOAN LOSSES	6,680	5,192	6,023	4,195	3,809
BALANCE AT END OF PERIOD	$54,413	49,259	38,655	26,492	23,990
Ratio of net charge-offs to average loans outstanding during the period	0.06%	0.02%	0.02%	0.10%	0.12%

(1) Acquisition of North Side in 2007, CDC and Morgan in 2006, First State Bank, Citizens and 1st Bank in 2005, and Pend Oreille Bank in 2003

ALLOCATION OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

(dollars in thousands)	2007 Allowance for Loan and Lease Losses	2007 Percent of loans in category	2006 Allowance for Loan and Lease Losses	2006 Percent of loans in category	2005 Allowance for Loan and Lease Losses	2005 Percent of loans in category	Allowa for Loan a Lease Lo
Residential first mortgage and loans held for sale	$ 4,755	20.2%	5,421	24.6%	4,318	25.0%	2,69
Commercial real estate	23,010	44.6%	16,741	36.1%	14,370	38.3%	9,22
Other commercial	17,453	17.6%	18,361	21.5%	12,566	17.4%	9,83
Consumer and other loans	9,195	17.6%	8,736	17.8%	7,401	19.3%	4,74
Totals	$54,413	100.0%	49,259	100.0%	38,655	100.0%	26,49

SOURCES OF FUNDS

GENERAL

Deposits are the most important source of the Banks' funds for lending and other business purposes. In addition, the Banks derive funds from loan repayments, advances from the FHLB of Seattle, repurchase agreements, and loan sales. Loan repayments are a relatively stable source of funds, while interest bearing deposit inflows and outflows are significantly influenced by general interest rate levels and money market conditions. Borrowings and advances may be used on a short-term basis to compensate for reductions in normal sources of funds such as deposit inflows at less than projected levels. They also may be used on a long-term basis to support expanded activities and to match maturities of longer-term assets. Deposits obtained through the Banks have traditionally been the principal source of funds for use in lending and other business purposes. Currently, the Banks have a number of different

16

deposit programs designed to attract both short-term and long-term deposits from the general public by providing a wide selection of accounts and rates. These programs include regular statement savings, interest-bearing checking, money market deposit accounts, and fixed rate certificates of deposit with maturities ranging form three months to five years, negotiated-rate jumbo certificates, non-interest demand accounts, and individual retirement accounts.

"Item 7 - Management's Discussion and Analysis" contains information relating to changes in the overall deposit portfolio.

Deposits are obtained primarily from individual and business residents of the Banks' market area. The Banks issue negotiated-rate certificate of deposits accounts and have paid a limited amount of fees to brokers to obtain deposits. The following table illustrates the amounts outstanding for deposits $100,000 and greater, according to the time remaining to maturity. Included in the seven to twelve month maturity are $1,015,000 of brokered certificate of deposits, respectively.

(dollars in thousands)	Certificate of Deposits	Demand Deposits	Totals
Within three months	$ 115,862	1,264,566	1,380,428
Three months to six months ..	82,255	--	82,255
Seven months to twelve months....................	97,646	--	97,646
Over twelve months	55,229	--	55,229
Totals	$ 350,992	1,264,566	1,615,558

For additional information, see "Item 7 - Management's Discussion & Analysis" and Note 7 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data".

In addition to funds obtained in the ordinary course of business, the Company formed Glacier Trust II, Glacier Trust III, and Glacier Trust IV as financing subsidiaries and obtained Citizens Trust I in connection with the acquisition of Citizens on April 1, 2005. The trusts issued preferred securities that entitle the shareholder to receive cumulative cash distributions from payments on Subordinated Debentures of the Company. The Subordinated Debentures outstanding as of December 31, 2007 are $118,559,000. For additional information regarding the subordinated debentures, see Note 10 to the Consolidated Financial

Statements "Item 8 - Financial Statements and Supplementary Data".

ADVANCES AND OTHER BORROWINGS

As a member of the FHLB of Seattle, the Banks may borrow from such entity on the security of FHLB of Seattle stock which the Banks are required to own and certain of its mortgages and other assets (principally, securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. Advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's total assets or on the FHLB's assessment of the institution's credit-worthiness. FHLB advances have been used from time to time to meet seasonal and other withdrawals of savings accounts and to expand lending by matching a portion of the estimated amortization and prepayments of retained fixed rate mortgages. All subsidiary banks are members of the FHLB of Seattle.

From time to time, primarily as a short-term financing arrangement for investment or liquidity purposes, the Banks have made use of repurchase agreements. This process involves the "selling" of one or more of the securities in the Banks' portfolio and by entering into an agreement to "repurchase" that same security at an agreed upon later date. A rate of interest is paid for the subject period of time. In addition, although the Banks have offered retail repurchase agreements to its retail customers, the Government Securities Act of 1986 imposed confirmation and other requirements which generally made it impractical for financial institutions to offer such investments on a broad basis. Through policies adopted by each of the Banks' Board of Directors, the Banks enter into repurchase agreements with local municipalities, and certain customers, and have adopted procedures designed to ensure proper transfer of title and safekeeping of the underlying securities.

17

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

	For the year ended December 31,		
(dollars in thousands)	2007	2006	2005
FHLB Advances			
Amount outstanding at end of period	$538,949	307,522	402,191
Average balance	$382,243	487,112	673,904
Maximum outstanding at any month-end	$538,949	655,492	804,047
Weighted average interest rate	4.94%	4.20%	3.19%
Repurchase Agreements:			
Amount outstanding at end of period	$178,041	170,216	129,530
Average balance	$171,290	153,314	103,522
Maximum outstanding at any month-end	$193,421	164,338	132,534
Weighted average interest rate	4.35%	4.32%	2.85%

For additional information concerning the Company's advances and repurchase agreements, see Notes 8 and 9 to the Consolidated Financial Statements in "Item

8 - Financial Statements and Supplementary Data".

EMPLOYEES

As of December 31, 2007, the Company employed 1,580 persons, 1,340 of who were full time, none of whom were represented by a collective bargaining group. The Company provides its employees with a comprehensive benefit program, including medical insurance, dental plan, life and accident insurance, long-term disability coverage, sick leave, profit sharing plan and employee stock options. The Company considers its employee relations to be excellent. See Note 13 in the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data" for detailed information regarding profit sharing plan costs and eligibility.

SUPERVISION AND REGULATION

INTRODUCTION

The following discussion describes elements of the extensive regulatory framework applicable to the Company and the Banks. This regulatory framework is primarily designed for the protection of depositors, federal deposit insurance funds and the banking system as a whole, rather than specifically for the protection of shareholders. Due to the breadth of this regulatory framework, the costs of compliance continue to increase in order to monitor and satisfy these requirements.

To the extent that this section describes statutory and regulatory provisions, it is qualified in its entirety by reference to those provisions. These statutes and regulations, as well as related policies, are subject to change by Congress, state legislatures and federal and state regulators. Changes in statutes, regulations or regulatory policies applicable to the Company, including interpretation or implementation thereof, could have a material effect on the Company's business or operations.

BANK HOLDING COMPANY REGULATION

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended ("BHCA"), due to its ownership of the subsidiary banks listed below. Glacier, Whitefish, Valley, First Security, Big Sky, First Bank-MT and Western are Montana state-chartered banks and are members of the Federal Reserve System; Mountain West and Citizens are Idaho state-chartered non-Federal Reserve member FDIC insured banks; 1st Bank is a Wyoming state-chartered bank and is a member of the Federal Reserve System; and Morgan is a national bank.

As a bank holding company, the Company is subject to regulation, supervision and examination by the Federal Reserve. In general, the BHCA limits the business of bank holding companies to owning or controlling banks and engaging in other activities closely related to banking. The Company must also file reports with and provide additional information to the Federal Reserve. Under the Financial Services Modernization Act of 1999, a bank holding company may apply to the Federal Reserve to become a financial

holding company, and thereby engage (directly or through a subsidiary) in certain expanded activities deemed financial in nature, such as securities brokerage and insurance underwriting.

Holding Company Bank Ownership. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares; (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company.

Holding Company Control of Nonbanks. With some exceptions, the BHCA also prohibits a bank holding company from acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities that, by federal statute, agency regulation or order, have been identified as activities closely related to the business of banking or of managing or controlling banks.

Transactions with Affiliates. Subsidiary banks of a bank holding company are subject to restrictions imposed by the Federal Reserve Act on extensions of credit to the holding company or its subsidiaries, on investments in their securities, and on the use of their securities as collateral for loans to any borrower. These regulations and restrictions may limit the Company's ability to obtain funds from the subsidiary banks for its cash needs, including funds for payment of dividends, interest and operational expenses.

Tying Arrangements. The Company is prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Company nor the Banks may condition an extension of credit to a customer on either (i) a requirement that the customer obtain additional services provided by the Company or Banks; or (ii) an agreement by the customer to refrain from obtaining other services from a competitor.

Support of Subsidiary Banks. Under Federal Reserve policy, the Company is expected to act as a source of financial and managerial strength to its Banks. This means that the Company is required to commit, as necessary, resources to support the Banks. Any capital loans a bank holding company makes to its subsidiary banks are subordinate to deposits and to certain other indebtedness of those subsidiary banks.

State Law Restrictions. As a Montana corporation, the Company is subject to certain limitations and restrictions under applicable Montana corporate law. For example, state law restrictions in Montana include limitations and restrictions relating to indemnification of directors, distributions to shareholders, transactions involving directors, officers or interested shareholders, maintenance of books, records and minutes, and observance of certain corporate formalities.

THE SUBSIDIARIES

Glacier, Whitefish, Valley, First Security, Big Sky, First Bank-MT, and Western are subject to regulation and supervision by the Montana Department of Administration's Banking and Financial Institutions Division and the Federal Reserve as a result of their membership in the Federal Reserve System.

Mountain West and Citizens are subject to regulation by the Idaho Department of Finance and by the FDIC as state non-member commercial banks. In addition, Mountain West's Utah and Washington branches are primarily regulated by the Utah Department of Financial Institutions and the Washington Department of Financial Institutions, respectively. 1st Bank is a member of the Federal Reserve System and is subject to regulation and supervision by the Federal Reserve and also the Wyoming Division of Banking as a Wyoming state chartered commercial bank.

As a national banking association with a home office in Utah, Morgan is subject to regulation by the Office of the Comptroller of the Currency ("OCC") and, to a certain extent, the Utah Department of Financial Institutions.

The federal laws that apply to the Banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, and the nature, amount of, and collateral for loans. Federal laws also regulate community reinvestment and insider credit transactions and impose safety and soundness standards.

Community Reinvestment. The Community Reinvestment Act of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, federal bank regulators must evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of

those banks. A bank's community reinvestment record is also considered by the applicable banking agencies in evaluating mergers, acquisitions, and applications to open a branch or facility.

Insider Credit Transactions. Banks are also subject to certain restrictions on extensions of credit to executive officers, directors, principal shareholders, and their related interests. Extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are at least as stringent, as those prevailing at the time for comparable transactions with persons not covered above and who are not employees; and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

Regulation of Management. Federal law (i) sets forth circumstances under which officers or directors of a bank may be removed by the institution's federal supervisory agency; (ii) places restraints on lending by a bank to its executive officers, directors, principal shareholders, and their related interests; and (iii) prohibits management personnel of a bank from serving as a director or in other management positions of another financial institution whose assets exceed a specified amount or which has an office within a specified geographic area.

Safety and Soundness Standards. Federal law imposes upon banks certain non-capital safety and soundness standards. These standards cover, among other things, internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation and benefits. Additional standards apply to asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to its regulators, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

INTERSTATE BANKING AND BRANCHING

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") relaxed prior interstate branching restrictions under federal law by permitting nationwide interstate banking and branching under certain circumstances. Generally, bank holding companies may purchase banks in any state and states may not prohibit such purchases. Additionally, banks are permitted to merge with banks in other states as long as the home state of neither merging bank has "opted out." The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. Federal bank regulations prohibit banks from using their interstate branches primarily for deposit production and federal bank regulatory agencies have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

With regard to interstate bank mergers, Montana "opted-out" of the Interstate Act. Subject to certain conditions, an in-state bank that has been in existence for at least 5 years may merge with an out-of-state bank. Banks, bank holding companies, and their respective subsidiaries cannot acquire control of a bank located in Montana if, after the acquisition, the acquiring institution, together with its affiliates, would directly or indirectly control more than 22% of the total deposits of insured depository institutions and credit unions located in Montana. Montana law does not authorize the establishment of a branch bank in Montana by an out-of-state bank.

Idaho has enacted "opting in" legislation in accordance with the Interstate Act provisions allowing banks to engage in interstate merger transactions subject to certain "aging" requirements. Branches may not be acquired or opened separately in Idaho by an out-of-state bank, but once an out-of-state bank has acquired a bank within Idaho, either through merger or acquisition of all or substantially all of the bank's assets, the out-of-state bank may open additional branches within Idaho.

Utah and Washington have each enacted "opting in" legislation similar in certain respects to that enacted by Idaho, allowing banks to engage in interstate merger transactions subject to certain aging requirements. Under Utah law, an out-of-state bank may acquire a bank branch located in Utah, but it may not establish a de novo branch in Utah if its home state does not have reciprocal laws on de novo branching. Under Washington law, an out-of-state bank may, subject to the Director's approval, open de novo branches in Washington or acquire an in-state branch so long as the home state of the out-of-state bank has reciprocal laws with respect to de novo branching or branch acquisitions

Under Wyoming law, banks located in Wyoming may be acquired by out-of-state banks so long as (i) with certain exceptions, the resulting bank and its affiliates would not control 30% or more of the total deposits held by all insured depository institutions in Wyoming; and (ii) the in-state bank has been in existence for at least three years. Branches may not be acquired or opened separately in Wyoming by an out-of-state bank, but once an out-of-state bank has acquired a bank within Wyoming, either through merger or acquisition of all or substantially all of the bank's assets, the out-of-state bank may open additional branches within Wyoming.

DEPOSIT INSURANCE

In 2006, federal deposit insurance reform legislation was enacted that (i) required the FDIC to merge the Bank Insurance Fund and the Savings Association Insurance Fund into a newly created Deposit Insurance Fund, which was completed in 2006; (ii) increases the amount of deposit insurance coverage for retirement accounts; (iii) allows for deposit insurance coverage on individual accounts to be indexed for inflation starting in 2010; (iv) provides the FDIC more flexibility in setting and imposing deposit insurance assessments; and (v) provides eligible institutions credits on future assessments.

The deposits of the Banks are currently insured to a maximum of $100,000 per depositor through the Deposit Insurance Fund. The Banks are required to pay deposit insurance premiums, which are assessed and paid regularly. The premium amount is based upon a risk classification system established by the FDIC. Banks with higher levels of capital and a low degree of supervisory concern are assessed lower premiums than banks with lower levels of capital or a higher degree of supervisory concern.

DIVIDENDS

The principal source of the Company's cash is dividends received from the Banks, which are subject to government regulation and limitation. Regulatory authorities may prohibit banks and bank holding companies from paying dividends that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. State law and, in the case of Morgan, national banking laws and related OCC regulations, limits a bank's ability to pay dividends that are greater than a certain amount without approval of the applicable agency.

CAPITAL ADEQUACY

Regulatory Capital Guidelines. Federal bank regulatory agencies use capital adequacy guidelines in the examination and regulation of bank holding companies and banks. The guidelines are "risk-based," meaning that they are designed to make capital requirements more sensitive to differences in risk profiles among banks and bank holding companies.

Tier I and Tier II Capital. Under the guidelines, an institution's capital is divided into two broad categories, Tier I capital and Tier II capital. Tier I capital generally consists of common shareholders' equity, surplus and undivided profits. Tier II capital generally consists of the allowance for loan and lease losses, hybrid capital instruments, and subordinated debt. The sum of Tier I capital and Tier II capital represents an institution's total capital. The guidelines require that at least 50% of an institution's total capital consist of Tier I capital.

Risk-based Capital Ratios. The adequacy of an institution's capital is gauged primarily with reference to the institution's risk-weighted assets. The guidelines assign risk weightings to an institution's assets in an effort to quantify the relative risk of each asset and to determine the minimum capital required to support that risk. An institution's risk-weighted assets are then compared with its Tier I capital and total capital to arrive at a Tier I risk-based ratio and a total risk-based ratio, respectively. The guidelines provide that an institution must have a minimum Tier I risk-based ratio of 4% and a minimum total risk-based ratio of 8%.

Leverage Ratio. The guidelines also employ a leverage ratio, which is Tier I capital as a percentage of total assets, less intangibles. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. The minimum leverage ratio is 3%; however, for all but the most highly rated bank holding companies and for bank holding companies seeking to expand, regulators expect an additional cushion of at least 1% to 2%.

Prompt Corrective Action. Under the guidelines, an institution is assigned to one of five capital categories depending on its total risk-based capital ratio, Tier I risk-based capital ratio, and leverage ratio, together with certain subjective factors. The categories range from "well capitalized" to "critically undercapitalized." Institutions that are "undercapitalized" or lower are subject to certain mandatory supervisory corrective actions.

In 2007, the federal banking agencies, including the FDIC and the Federal Reserve, approved final rules to implement new risk-based capital requirements. Presently, this new advanced capital adequacy framework, called Basel II, is applicable only to large and internationally active banking organizations. Basel II changes the existing risk-based capital framework by enhancing its risk sensitivity. Whether Basel II will be expanded to apply to banking organizations that are the size of the Company or its subsidiary banks is unclear at this time, and what effect such regulations would have cannot be predicted, but the Company and the subsidiary banks do not expect that their operations would be significantly impacted.

CORPORATE GOVERNANCE AND ACCOUNTING LEGISLATION

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the "Act") addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, the Act (i) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the Securities and Exchange Commission (the "SEC"); (ii) imposes specific and enhanced corporate disclosure requirements; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; (iv) requires companies to adopt and disclose information about corporate governance practices, including whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one "audit committee financial expert;" and (v) requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings.

To deter wrongdoing, the Act: (i) subjects bonuses issued to top executives to disgorgement if a restatement of a company's financial statements was due to corporate misconduct; (ii) prohibits an officer or director misleading or coercing an auditor; (iii) prohibits insider trades during pension fund "blackout periods"; (iv) imposes new criminal penalties for fraud and other wrongful acts; and (v) extends the period during which certain securities fraud lawsuits can be brought against a company or its officers.

As a publicly reporting company, the Company is subject to the requirements of the Act and related rules and regulations issued by the SEC and NASDAQ. After enactment, the Company updated its policies and procedures to comply with the Act's requirements and has found that such compliance, including compliance with Section 404 of the Act relating to management control over financial reporting, has resulted in significant additional expense for the Company. The Company anticipates that it will continue to incur such additional expense in its ongoing compliance.

ANTI-TERRORISM LEGISLATION

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, intended to combat terrorism, was renewed with certain amendments in 2006 (the "Patriot Act"). Certain provisions of the Patriot Act were made permanent and other sections were made subject to extended "sunset" provisions. The Patriot Act, in relevant part, (i) prohibits banks from providing correspondent accounts directly to foreign shell banks; (ii) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals; (iii) requires financial institutions to establish an anti-money-laundering compliance program; and (iv) eliminates civil liability for persons who file suspicious activity reports. The Act also includes provisions providing the government with power to investigate terrorism, including expanded government access to bank account records. While the Patriot Act has had minimal affect on the Company's and the Subsidiary Bank's record keeping and reporting expenses, it is not likely that the renewal and amendment will have a material adverse effect on business or operations.

FINANCIAL SERVICES MODERNIZATION

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 brought about significant changes to the laws affecting banks and bank holding companies. Generally, the Act (i) repeals the historical restrictions on preventing banks from affiliating with securities firms; (ii) provides a uniform framework for the activities of banks, savings institutions and their holding companies; (iii) broadens the activities that may be conducted by national banks and banking subsidiaries of bank holding companies; (iv) provides an enhanced framework for protecting the privacy of consumer information and requires notification to consumers of bank privacy policies; and (v) addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions. Bank holding companies that qualify and elect to become financial holding companies can engage in a wider variety of financial activities than permitted under previous law, particularly with respect to insurance and securities underwriting activities.

RECENT LEGISLATION

Financial Services Regulatory Relief Act of 2006. In 2006, the President signed the Financial Services Regulatory Relief Act of 2006 into law (the "Relief Act"). The Relief Act amends several existing banking laws and regulations, eliminates some unnecessary and overly burdensome regulations of depository institutions and clarifies several existing regulations. The Relief Act, among other things, (i) authorizes the Federal Reserve Board to set reserve ratios; (ii) amends national banks regulations relating to shareholder voting and granting of dividends; (iii) amends several provisions relating to such issues as loans to insiders, regulatory applications, privacy notices, and golden parachute payments; and (iv) expands and clarifies the enforcement authority of federal banking regulators. The Company's and the subsidiary banks' business, expenses, and operations have not been significantly impacted by this legislation.

REGULATORY OVERSIGHT AND EXAMINATION

The Federal Reserve conducts periodic inspections of bank holding companies, which are performed both onsite and offsite. The

supervisory objectives of the inspection program are to ascertain whether the financial strength of the bank holding company is being maintained on an ongoing basis and to determine the effects or consequences of transactions between a holding company or its non-banking subsidiaries and its subsidiary banks. For holding companies under $10 billion in assets, the inspection type and frequency varies depending on asset size, complexity of the organization, and the holding company's rating at its last inspection.

Banks are subject to periodic examinations by their primary regulators. Bank examinations have evolved from reliance on transaction testing in assessing a bank's condition to a risk-focused approach. These examinations are extensive and cover the entire breadth of operations of the bank. Generally, safety and soundness examinations occur on an 18-month cycle for banks under $500 million in total assets that are well capitalized and without regulatory issues, and 12-months otherwise. Examinations alternate between the federal and state bank regulatory agency or may occur on a combined schedule. The frequency of consumer compliance and CRA examinations is linked to the size of the institution and its compliance and CRA ratings at its most recent examinations. However, the examination authority of the Federal Reserve and the FDIC allows them to examine supervised banks as frequently as deemed necessary based on the condition of the bank or as a result of certain triggering events.

EFFECTS OF GOVERNMENT MONETARY POLICY

The Company's earnings and growth are affected by general economic conditions and by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements a national monetary policy for such purposes as curbing inflation and combating recession, but its open market operations in U.S. government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits, influence the growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The Company cannot predict with certainty the nature and impact of future changes in monetary policies, such as the recent lowering of the Federal Reserve's discount rate, and their impact on the Company or the Banks.

TAXATION

FEDERAL TAXATION

The Company files a consolidated federal income tax return, using the accrual method of accounting. All required tax returns have been timely filed.

Financial institutions are subject to the provisions of the Internal Revenue Code of 1986, as amended, in the same general manner as other corporations. See Note 12 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data" for additional information.

STATE TAXATION

Under Montana, Idaho and Utah law, financial institutions are subject to a corporation tax, which incorporates or is substantially similar to applicable provisions of the Internal Revenue Code. The corporation tax is imposed on federal taxable income, subject to certain adjustments. State taxes are incurred at the rate of 6.75 percent in Montana, 7.6 percent in Idaho, and 5 percent in Utah. Wyoming and Washington do not impose a corporate tax.

ITEM 1A. RISK FACTORS

The Company and the Banks are exposed to certain risks. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results.

FLUCTUATING INTEREST RATES CAN ADVERSELY AFFECT OUR 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 our 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, the profitability. The Company cannot assure you that it can minimize interest rate risk. In addition, interest rates also affect the amount of money the Company can lend. When interest rates rise, the cost of borrowing also increases. Accordingly, changes in levels of market interest rates could materially and adversely affect the net interest spread, asset quality, loan origination volume, business and prospects. For discussion concerning Net Interest Income Simulation, see "Item 7 - Management Discussion & Analysis".

A TIGHTENING OF THE CREDIT MARKET MAY MAKE IT DIFFICULT TO OBTAIN AVAILABLE MONEY TO FUND LOAN GROWTH, WHICH COULD ADVERSELY AFFECT OUR EARNINGS

A tightening of the credit market and the inability to obtain adequate money to fund continued loan growth may negatively affect asset growth and, therefore, earnings capability. In addition to any deposit growth, maturity of investment securities and loan payments, the Company also relies on alternative funding sources through correspondent banking and a borrowing line with the FHLB to fund loans. In the event of a downturn in the economy, particularly in the housing market, these resources could be negatively affected, which would limit the funds available to the Company.

ALLOWANCE FOR LOAN AND LEASE LOSSES MAY NOT BE ADEQUATE TO COVER ACTUAL LOAN LOSSES, WHICH COULD ADVERSELY AFFECT EARNINGS

The Company maintains an allowance for loan and lease losses in an amount that is believed adequate to provide for losses inherent in the portfolio. While the Company strives to carefully 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. The Company cannot be sure that it will be able to identify deteriorating loans before they become non-performing assets, or that it will be able to limit losses on those loans that are identified. As a result, future additions to the allowance may be necessary. Additionally, future additions to the allowance may be required based on changes in the composition of the loans comprising the portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions or as a result of incorrect assumptions by management in determining the allowance. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review our allowance for loan and lease losses. These regulatory agencies may require us to increase the allowance for loan and lease losses which could have a negative effect on our financial condition and results of operation.

CONCENTRATION IN REAL ESTATE MARKET

The Company has a high concentration of loans secured by real estate and a downturn in the real estate market, for any reason, could hurt business and prospects. Business activities and credit exposure are concentrated in loans secured by real estate. A decline in the real estate market could negatively affect the business because the collateral securing those loans may decrease in value. A downturn in 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 ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and the Company would more likely to suffer losses on defaulted loans.

LOAN PORTFOLIO MIX COULD RESULT IN INCREASED CREDIT RISK IN AN ECONOMIC DOWNTURN

The loan portfolio contains a high percentage of commercial, commercial real estate, real estate acquisition and development loans in relation to the total loans and total assets. These types of loans generally are 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 a pronouncement alerting banks 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 loan portfolio contains a significant number of commercial and commercial real estate loans with relatively large balances, the deterioration of one or a few 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 the results of operations and financial condition.

COMPETITION IN OUR MARKET AREA MAY LIMIT OUR 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 our market area. The Company is subject to substantial competition for loans and deposits from other financial institutions. Some of the Company's competitors are not subject to the same degree of regulation and restriction as it is. Some of its competitors have greater financial resources than the Company. If the Company is unable to effectively compete in its market area, the business and results of operations could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

At December 31, 2007, the Company owned 76 of its 94 offices, of which 8 are loan or administration offices. Including its headquarters and other owned properties there is an aggregate book value of approximately $95 million. The remaining offices are

leased and include 7 offices in Montana, 8 offices in Idaho, 1 office in Wyoming, 1 office in Utah, and 1 office in Washington. The following schedule provides property information for the Company's operating segments as of December 31, 2007.

(dollars in thousands)	Properties Leased	Properties Owned	Net Book Value
Mountain West	10	20	$14,643
Glacier	1	13	19,677
First Security	3	9	11,493
Western	1	7	14,716
1st Bank	1	7	7,267
Big Sky	1	4	10,041
Valley	--	6	5,565
Whitefish	--	2	3,319
Citizens	--	5	5,598
First Bank-MT	1	1	554
Morgan	--	2	1,985
	18	76	$94,858

The Company believes that all of its facilities are well maintained, generally adequate and suitable for the current operations of its business, as well as fully utilized. In the normal course of business, new locations and facility upgrades occur.

For additional information concerning the Company's premises and equipment and lease obligations, see Notes 5 and 19 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data".

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to various claims, legal actions and complaints in the ordinary course of their businesses. In the Company's opinion, all such matters are adequately covered by insurance, are without merit or are of such kind, or involve such amounts, that unfavorable disposition would not have a material adverse effect on the consolidated financial position or results of operations of the Company.

ITEM 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders in the fourth quarter of 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASE OF EQUITY SECURITIES

The Company's stock trades on the NASDAQ Global Select Market under the symbol: GBCI. The primary market makers, trading greater than 1 million shares during the year, are listed below:

Citigroup Global Markets, Inc.	Credit Suisse Securities USA	D.A. Davidson & Co., Inc.
Goldman, Sachs & Co.	Instinet, LLC	Interactive Brokers LLC
Keefe, Bruyette & Woods, Inc.	Knight Equity Markets, L.P.	Lehman Brothers, Inc.
Lime Brokerage, LLC	Millenco	Merrill Lynch, Pierce, Fenner
Morgan Stanley & Co., Inc.	RBC Capital Markets Corp.	SG Americas Securities LLC
Timber Hill Inc.	UBS Securities, LLC.	

The market range of high and low bid prices for the Company's common stock for the periods indicated are shown below. The sale price information has been adjusted retroactively for all stock dividends and splits previously issued. As of December 31, 2007, there

were approximately 1,992 shareholders of record of the Company's common stock. Following is a schedule of quarterly common stock price ranges:

	2007		2006	
Quarter	High	Low	High	Low
First ...	$25.39	$22.76	$21.81	$19.72
Second ..	$24.61	$19.55	$21.20	$18.69
Third ...	$24.00	$18.41	$23.24	$18.55
Fourth ..	$23.85	$17.57	$25.25	$21.99

The Company paid cash dividends on its common stock of $.50 and $.45 per share for the years ended December 31, 2007 and 2006, respectively.

On August 9, 2006, the Company completed the offering of 1,500,000 common shares generating net proceeds, after underwriter discounts and offering expenses, of $29.4 million. The Company used the net proceeds of the offering to fund a portion of the cash merger consideration payable in connection with the acquisition of CDC and its subsidiary banks.

UNREGISTERED SECURITIES

There have been no securities of the Company sold within the last three years which were not registered under the Securities Act.

ISSUER STOCK PURCHASES

The Company made no stock repurchases during 2007.

EQUITY COMPENSATION PLAN INFORMATION

The Company currently maintains two compensation plans that provide for the issuance of the stock-based compensation to officers and other employees and directors. These consist of the 1994 Director Stock Option Plan, amended, and the 2005 Employee Stock Incentive Plan, each of which have been approved by the shareholders. Although the 1995 Employee Stock Option Plan expired in April 2005, there are issued options outstanding that have not been exercised as of year end. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 31, 2007:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants, and rights (1) (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of share available fo issuance und compensation (excluding s reflected in co (c)