GLACIER BANCORP INC
Form 10-Q
November 06, 2009

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

FORM 10-Q

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended September 30, 2009

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

For the transition period from _____________ to______________

COMMISSION FILE 0-18911

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

MONTANA	81-0519541
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
49 Commons Loop, Kalispell, Montana	59901
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [X]	Accelerated Filer [ ]
Non-Accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller reporting Company [ ]

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

The number of shares of Registrant's common stock outstanding on October 26, 2009 was 61,619,803. No preferred shares are issued or outstanding.

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

INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1 - Financial Statements	
Condensed Consolidated Statements of Financial Condition - Unaudited September 30, 2009, September 30, 2008 and audited December 31, 2008 ...	3
Condensed Consolidated Statements of Operations - Unaudited three and nine months ended September 30, 2009 and 2008	4
Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income - audited year ended December 31, 2008 and unaudited nine months ended September 30, 2009	5
Condensed Consolidated Statements of Cash Flows - Unaudited nine months ended September 30, 2009 and 2008	6
Notes to Condensed Consolidated Financial Statements - Unaudited	7
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3 - Quantitative and Qualitative Disclosure about Market Risk	46
Item 4 - Controls and Procedures	46
PART II. OTHER INFORMATION	47
Item 1 - Legal Proceedings	47
Item 1A - Risk Factors	47
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 3 - Defaults Upon Senior Securities	52
Item 4 - Submission of Matters to a Vote of Security Holders	52
Item 5 - Other Information	52
Item 6 - Exhibits	52
Signatures	52

GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except per share data)	SEPTEMBER 30, 2009	D
	(unaudited)	(
ASSETS:		
Cash on hand and in banks	$ 93,728	
Federal funds sold	47,025	

Interest bearing cash deposits	2,570
Cash and cash equivalents	143,323
Investment securities	1,212,947
Loans held for sale	54,475
Loans receivable, gross	3,991,775
Allowance for loan and lease losses	(125,330)
Loans receivable, net	3,920,920
Premises and equipment, net	136,617
Real estate and other assets owned, net	54,537
Accrued interest receivable	29,489
Deferred tax asset	22,681
Core deposit intangible, net	10,719
Goodwill	146,259
Other assets	30,808
Total assets	$ 5,708,300
LIABILITIES AND STOCKHOLDERS' EQUITY:	
Non-interest bearing deposits	$ 801,261
Interest bearing deposits	2,809,756
Advances from Federal Home Loan Bank	640,735
Securities sold under agreements to repurchase	210,519
Federal Reserve Bank discount window	370,000
U.S. Treasury Tax & Loan	3,009
Other borrowed funds	12,055
Accrued interest payable	8,015
Subordinated debentures	120,167
Other liabilities	34,681
Total liabilities	5,010,198
Preferred shares, $.01 par value per share. 1,000,000 shares authorized None issued or outstanding	--
Common stock, $.01 par value per share. 117,187,500 shares authorized	615
Paid-in capital	495,663
Retained earnings - substantially restricted	186,678
Accumulated other comprehensive gain (loss)	15,146
Total stockholders' equity	698,102
Total liabilities and stockholders' equity	$ 5,708,300
Number of shares outstanding	61,519,808
Book value per share	$ 11.35

See accompanying notes to condensed consolidated financial statements.

3

GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30,	
(UNAUDITED - dollars in thousands, except per share data)	2009	2008

INTEREST INCOME:		
Real estate loans	$ 13,330	12,801
Commercial loans	36,739	41,212
Consumer and other loans	11,150	11,967
Investment securities and other	13,211	9,709
Total interest income	74,430	75,689
INTEREST EXPENSE:		
Deposits	9,232	12,518
Federal Home Loan Bank advances	2,087	2,337
Securities sold under agreements to repurchase	447	919
Subordinated debentures	1,641	1,852
Other borrowed funds	394	4,487
Total interest expense	13,801	22,113
NET INTEREST INCOME	60,629	53,576
Provision for loan losses	47,050	8,715
Net interest income after provision for loan losses	13,579	44,861
NON-INTEREST INCOME:		
Service charges and other fees	10,604	11,285
Miscellaneous loan fees and charges	1,499	1,515
Gains on sale of loans	5,613	3,529
Gain (loss) on investments	2,667	(7,593)
Other income	1,317	3,018
Total non-interest income	21,700	11,754
NON-INTEREST EXPENSE:		
Compensation, employee benefits and related expense	20,935	21,188
Occupancy and equipment expense	5,835	5,502
Advertising and promotions expense	1,596	1,942
Outsourced data processing expense	830	556
Core deposit intangibles amortization	758	764
Other expense	11,942	7,809
Total non-interest expense	41,896	37,761
(LOSS) EARNINGS BEFORE INCOME TAXES	(6,617)	18,854
Federal and state income tax (benefit) expense	(5,086)	6,069
NET (LOSS) EARNINGS	$ (1,531)	12,785
Basic (loss) earnings per share	$ (0.03)	0.23
Diluted (loss) earnings per share	$ (0.03)	0.24
Dividends declared per share	$ 0.13	0.13
Return on average assets (annualized)	(0.11%)	1.01%
Return on average equity (annualized)	(0.88%)	9.15%
Average outstanding shares - basic	61,519,808	54,104,560
Average outstanding shares - diluted	61,519,808	54,305,005

See accompanying notes to condensed consolidated financial statements.

GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2008 AND UNAUDITED NINE MONTHS ENDED SEPTEMBER 30, 2009

(Dollars in thousands, except per share data)	Common Stock Shares	Common Stock Amount	Paid-in capital	Ret ear subst rest
Balance at December 31, 2007	53,646,480	$ 536	374,728	15
Comprehensive income:				
Net earnings	--	--	--	6
Unrealized loss on securities, net of reclassification adjustment and taxes	--	--	--	
Total comprehensive income				
Cash dividends declared ($.52 per share)	--	--	--	(2
Stock options exercised	719,858	7	9,789	
Stock issued in connection with acquisition	639,935	7	9,280	
Public offering of stock issued	6,325,000	63	93,890	
Cumulative effect of change in accounting principle	--	--	--	
Stock based compensation and tax benefit	--	--	4,107	
Balance at December 31, 2008	61,331,273	$ 613	491,794	18
Comprehensive income:				
Net earnings	--	--	--	2
Unrealized gain on securities, net of reclassification adjustment and taxes	--	--	--	
Total comprehensive income				
Cash dividends declared ($.39 per share)	--	--	--	(2
Stock options exercised	188,535	2	2,552	
Stock based compensation and tax benefit	--	--	1,317	
Balance at September 30, 2009 (unaudited)	61,519,808	$ 615	495,663	18

See accompanying notes to condensed consolidated financial statements.

5

GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED - Dollars in thousands)	NINE MONTHS ENDED S 2009
OPERATING ACTIVITIES:	
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 100,501

INVESTING ACTIVITIES:	
Proceeds from sales, maturities and prepayments of investments available-for-sale	194,297
Purchases of investments available-for-sale	(386,502)
Principal collected on commercial and consumer loans	768,123
Commercial and consumer loans originated or acquired	(807,260)
Principal collections on real estate loans	161,483
Real estate loans originated or acquired	(133,997)
Net purchase of FHLB and FRB stock	(701)
Proceeds from sale of other real estate owned	9,833
Net addition of premises and equipment and other real estate owned	(11,957)
NET CASH USED IN INVESTING ACTIVITIES	(206,681)
FINANCING ACTIVITIES:	
Net increase (decrease) in deposits	348,456
Net increase in FHLB advances	302,279
Net increase in securities sold under repurchase agreements	22,156
Net (decrease) increase in Federal Reserve Bank discount window	(544,000)
Net (decrease) increase in U.S. Treasury Tax and Loan funds	(3,058)
Net increase (decrease) in other borrowed funds	9,784
Cash dividends paid	(23,998)
Excess tax benefits from stock options	75
Proceeds from exercise of stock options and other stock issued	2,554
NET CASH PROVIDED BY FINANCING ACTIVITIES	114,248
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,068
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	135,255
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 143,323
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	$ 44,630
Cash paid for Income taxes	28,392
Sale and refinancing of other real estate owned	5,802
Other real estate acquired in settlement of loans	61,581

See accompanying notes to condensed consolidated financial statements.

6

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Glacier Bancorp Inc.'s (the "Company") financial condition as of September 30, 2009 and 2008, stockholders' equity and comprehensive income for the nine months ended September 30, 2009, the results of operations for the three and nine months ended September 30, 2009 and 2008, and cash flows for the nine months ended September 30, 2009 and 2008. The condensed consolidated statement of financial condition and statement of stockholders' equity and comprehensive income of the Company as of December 31, 2008 have been derived from the audited consolidated statements of the Company as of that date.

The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Operating results for the nine months ended September 30, 2009 are not necessarily indicative of the results anticipated for the year ending December 31, 2009. Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

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

2) Organizational Structure

The Company, headquartered in Kalispell, Montana, is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation incorporated in 1990. The Company is a regional multi-bank holding company that provides a full range of banking services to individual and corporate customers in Montana, Idaho, Wyoming, Colorado, Utah and Washington through its bank subsidiaries. The bank subsidiaries are subject to competition from other financial service providers. The bank subsidiaries are also subject to the regulations of certain government agencies and undergo periodic examinations by those regulatory authorities.

As of September 30, 2009, the Company is the parent holding company for ten wholly-owned, independent community bank subsidiaries: Glacier Bank ("Glacier"), First Security Bank of Missoula ("First Security"), Western Security Bank ("Western"), Big Sky Western Bank ("Big Sky"), Valley Bank of Helena ("Valley"), First Bank of Montana ("First Bank-MT"), all located in Montana, Mountain West Bank ("Mountain West") which is located in Idaho, Utah, and Washington, Citizens Community Bank ("Citizens") located in Idaho, 1st Bank ("1st Bank") located in Wyoming and Utah, and Bank of the San Juans ("San Juans") located in Colorado.

On October 2, 2009, the Company completed the acquisition of First Company and its subsidiary First National Bank & Trust, a community bank based in Powell, Wyoming. First National Bank & Trust provides community banking services from three branch locations in Powell, Cody, and Lovell, Wyoming. As of the acquisition, First National Bank & Trust had total assets of approximately $267 million. First National Bank & Trust will operate as a separate wholly-owned subsidiary of the Company.

On February 1, 2009, First National Bank of Morgan ("Morgan") merged into 1st Bank resulting in operations being conducted under the 1st Bank charter. Prior period activity of Morgan has been combined and included in 1st Bank's historical results. The merger has been accounted for as a

combination of two wholly-owned subsidiaries without acquisition accounting.

On December 1, 2008, Bank of the San Juans Bancorporation and its subsidiary, San Juans, were acquired by the Company. The results of operations and financial condition are included from the acquisition date.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification(TM) ("ASC") Topic 810, Consolidation provides guidance as to when a company should include the assets, liabilities, and activities of a variable interest entity ("VIE") in its financial statements, and when a company should disclose information about its relationship with a VIE. A VIE is a legal structure used to conduct activities or hold assets, and a VIE must be consolidated by a company if it is the primary beneficiary because a primary beneficiary absorbs the majority of the entity's expected losses, the majority of the expected residual returns, or both. The Company has equity investments in Certified Development Entities in the form of limited liability companies ("LLC") which have received allocations of new market tax credits ("NMTC"). The Company also has equity investments in low-income housing tax credit partnerships ("LIHTC"). The LLCs and the partnerships are considered VIEs. The Company has evaluated the relationships and where the Company has been determined to be the primary beneficiary in a VIE, it has consolidated its interest in the VIE into the community bank subsidiary which holds the investment in the VIE.

In June 2009, FASB issued a standard that will amend FASB ASC Topic 810, Consolidation. The objective of this standard is to amend certain requirements to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This standard shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company's financial position or results of operations.

In addition, the Company owns five 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") and Bank of the San Juans Trust I ("San Juans Trust I") for the purpose of issuing trust preferred securities and, in accordance with FASB Topic 810, Consolidation, the subsidiaries are not consolidated into the Company's financial statements. The Company does not have any other off-balance sheet entities.

See Note 12 - Segment Information for selected financial data including net earnings (loss) and total assets for the parent company and each of the community bank subsidiaries. Although the consolidated total assets of the Company were $5.7 billion at September 30, 2009, eight of the ten community banks had total assets of less than $1 billion. The smallest community bank subsidiary had $180 million in

total assets, while the largest community bank subsidiary had $1.3 billion in total assets at September 30, 2009.

The following abbreviated organizational chart illustrates the various

relationships as of September 30, 2009:

```
                                      |----------------------------|
                                      |   Glacier Bancorp, Inc.    |
                                      |  (Parent Holding Company)  |
                                      |----------------------------|
                                                     |
|----------------------------|-|----------------------------|---|----------------------------|-|-
|        Glacier Bank        | |      Mountain West Bank    | | |     First Security Bank    | |
|     (MT Community Bank)    | |     (ID Community Bank)    | | |         of Missoula        | |
|                            | |                            | | |     (MT Community Bank)    | |
|----------------------------| |----------------------------| | |----------------------------| |-
                                                             |
|----------------------------|-|----------------------------|-|-|----------------------------|-|-
|          1st Bank          | |            Big Sky         | | |         Valley Bank        | |
|     (WY Community Bank)    | |         Western Bank       | | |          of Helena         | |
|                            | |      (MT Community Bank)   | | |     (MT Community Bank)    | |
|----------------------------| |----------------------------| | |----------------------------| |-
                                                             |
|----------------------------|-|----------------------------|-|-|----------------------------|-|-
|        Bank of the         | |    First Bank of Montana   | | |                            | |
|         San Juans          | |     (MT Community Bank)    | | |  Glacier Capital Trust II  | |
|     (CO Community Bank)    | |                            | | |                            | |
|----------------------------| |----------------------------| | |----------------------------| |-
                                                             |
             |----------------------------|-|---------------------------------|-|---------------
             |                            | |                                 | |
             |  Glacier Capital Trust IV  | | Citizens (ID) Statutory Trust I | |      San Juans
             |                            | |                                 | |
             |----------------------------| |---------------------------------| |---------------
```


3) Investments

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

INVESTMENTS AS OF SEPTEMBER 30, 2009

(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	E
AVAILABLE-FOR-SALE:					
U.S. GOVERNMENT AGENCIES:					
maturing one year through five years	1.62%	$ 210	--	(1)	
GOVERNMENT-SPONSORED ENTERPRISES:					
maturing one year through five years	3.21%	174	--	--	
maturing five years through ten years	1.64%	41	--	(1)	
maturing after ten years	2.05%	64	--	--	

	2.44%	279	--	(1)	
STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES:					
maturing within one year	3.82%	865	5	--	
maturing one year through five years	4.41%	2,548	117	--	
maturing five years through ten years	4.39%	16,715	861	--	
maturing after ten years	4.92%	414,547	16,918	(1,461)	
	4.90%	434,675	17,901	(1,461)	
COLLATERALIZED DEBT OBLIGATIONS:					
maturing after ten years	8.39%	15,066	--	(8,466)	
RESIDENTIAL MORTGAGE-BACKED SECURITIES	3.91%	675,691	27,164	(10,230)	
TOTAL MARKETABLE SECURITIES	3.91%	1,125,921	45,065	(20,159)	1
OTHER INVESTMENTS:					
FHLB and FRB stock, at cost	1.28%	61,656	--	--	
Other stock, at cost	3.72%	464	--	--	
TOTAL INVESTMENTS	4.19%	$1,188,041	45,065	(20,159)	1

10

INVESTMENTS AS OF DECEMBER 31, 2008

(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unrealized		E
			Gains	Losses	
AVAILABLE-FOR-SALE:					
U.S. GOVERNMENT AGENCIES:					
maturing one year through five years	1.62%	$ 213	4	--	
GOVERNMENT-SPONSORED ENTERPRISES:					
maturing five years through ten years	4.12%	246	--	(2)	
maturing after ten years	3.75%	68	--	--	
	4.04%	314	--	(2)	
STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES:					
maturing within one year	3.76%	940	6	--	
maturing one year through five years	4.61%	4,482	104	(9)	
maturing five years through ten years	5.08%	20,219	1,030	(80)	
maturing after ten years	4.95%	393,377	7,807	(9,733)	
	4.95%	419,018	8,947	(9,822)	
COLLATERALIZED DEBT OBLIGATIONS:					
maturing after ten years	8.39%	15,226	314	--	
RESIDENTIAL MORTGAGE-BACKED SECURITIES	4.62%	495,961	4,956	(6,447)	
TOTAL MARKETABLE SECURITIES	4.83%	930,732	14,221	(16,271)	
OTHER INVESTMENTS:					
FHLB and FRB stock, at cost	1.72%	60,945	--	--	

Other stock, at cost	3.10%	465	--	--
TOTAL INVESTMENTS	4.64%	$992,142	14,221	(16,271)

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

Interest income includes tax-exempt interest for the nine months ended September 30, 2009 and 2008 of $16,692,000 and $9,547,000, respectively, and for the three months ended September 30, 2009 and 2008 of $5,623,000 and $3,199,000, respectively.

Gross proceeds from sale of marketable securities for the nine months ended September 30, 2009 and 2008 were $37,450,000 and $97,002,000, respectively, resulting in gross gains of $2,871,000 and $0, respectively, and gross losses of $204,000 and $0, respectively. The gross proceeds and gross gains from the sale of other stock was $0 and $248,000 for the nine months ended September 30, 2009 and 2008, respectively. During the first quarter of 2008, the Company realized a gain of $130,000 from extinguishment of the Company's share ownership in Principal Financial Group and a gain of $118,000 from the mandatory redemption of a portion of Visa, Inc. shares from its recent initial public offering. During the third quarter of 2008, the Company incurred a $7,593,000 other than temporary impairment ("OTTI") charge with respect to its investments in Federal Home Loan Mortgage Corporation ("Freddie Mac") preferred stock and Federal National Mortgage Association ("Fannie Mae") common stock. The Fannie Mae and Freddie Mac stock was written down to a $0 value, however, the shares were still owned by the Company at September 30, 2009. The cost of any investment sold is determined by specific identification.

11

At September 30, 2009, the Company had investment securities with carrying values of approximately $691,651,000, pledged as collateral for FHLB advances, Federal Reserve Bank ("FRB") discount window borrowings, securities sold under agreements to repurchase, U.S. Treasury Tax and Loan borrowings and deposits of several local government units.

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

Investments with an unrealized loss position at September 30, 2009:

	Less than 12 months		12 months or more	
(dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealiz Loss
U.S. Government Agencies	$ 209	1	--	--
Government Sponsored Enterprises	--	--	43	1

State and Local Governments and other issues	9,924	539	20,981	922
Collateralized Debt Obligations	4,600	8,466	--	--
Residential Mortgage-backed Securities	86,657	444	43,464	9,786
Total temporarily impaired securities	$101,390	9,450	64,488	10,709

Investments with an unrealized loss position at December 31, 2008:

(dollars in thousands)	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealiz Loss
U.S. Government Agencies	$ --	--	--	--
Government Sponsored Enterprises	104	1	205	1
State and Local Governments and other issues	142,826	9,772	1,621	50
Collateralized Debt Obligations	--	--	--	--
Residential Mortgage-backed Securities	116,004	5,758	12,403	689
Total temporarily impaired securities	$258,934	15,531	14,229	740

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

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

In evaluating debt securities for other-than-temporary impairment losses, management assesses whether the Company intends to sell or if it is more likely-than-not that it will be required to sell impaired debt securities. In so doing, management considers contractual constraints, liquidity, capital, asset / liability management and securities portfolio objectives. With respect to its impaired debt securities at September 30, 2009, management determined that it does not intend to sell and that there is no expected requirement to sell any of its impaired debt securities.

As of September 30, 2009, there were 75 investments in an unrealized loss position and were considered to be temporarily impaired and therefore an impairment charge has not been recorded. All of such temporarily impaired investments are debt securities. Residential Mortgage-backed securities have the largest unrealized loss. The fair value of these securities, which have underlying collateral consisting of U.S. government sponsored enterprise guaranteed mortgages and non-guaranteed private label whole loan mortgages, were $130,121,000 at September 30, 2009 of which $75,739,000 was purchased during 2009, the remainder of which had a fair market value of $71,120,000 at December 31, 2008. For the securities purchased in 2009 there has been an unrealized loss of $351,000 since purchase. Of the remaining Residential Mortgage-backed securities in a loss position the unrealized loss increased from 8.6 percent of fair value at December 31, 2008 to 18.2 percent of fair value at September 30, 2009. The fair value of Collateralized Debt Obligation securities in an unrealized loss position is $4,600,000 with unrealized losses of $8,466,000 or 184 percent of fair value at September 30, 2009; such investments had an unrealized gain position at December 31, 2008. The fair value of State and Local Government were $30,905,000 at September 30, 2009 of which $902,000 was purchased during 2009, the remainder of which had a fair market value of $27,448,000 at December 31, 2008. For the securities purchased in 2009 there has been an unrealized loss of $22,000 since purchase. Of the remaining State and Local Government securities in a loss position the unrealized loss decreased from 15.5 percent of fair value at December 31, 2008 to 4.8 percent of fair value at September 30, 2009.

The Company stratified the 75 debt securities for both severity and duration of impairment. With respect to severity, 29 debt securities had impairment that exceeded 5 percent of the respective book values, of which 14 had impairment that exceeded 15 percent of the respective book values at September 30, 2009. 6 of the 75 debt securities had impairment that exceeded 40 percent of the respective book values at September 30, 2009. The remaining 46 debt securities had impairment that was 5 percent or less of the respective book values as of September 30, 2009.

With respect to the duration of the impaired securities, the Company identified 43 securities which have been continuously impaired for the 12 months ending September 30, 2009. The valuation history of such securities in the prior year(s) was also reviewed to determine the number of months in prior year(s) in which the identified securities was in an unrealized loss position. 13 of these 43 securities are non-guaranteed, non-Agency CMOs with an aggregate unrealized loss of $9,780,000, the most notable of which had an unrealized loss of $1,992,000. 21 of the 43 securities are state and local tax-exempt securities with an unrealized loss of $922,000, the most notable of which had an unrealized loss of $255,000. 7 of the 43 securities are mortgage-backed securities issued by U.S. government sponsored agencies, i.e., GNMA, FNMA, FHLMC and SBA, the aggregate unrealized loss of which was $6,000.

For impaired debt securities for which there was no intent or expected requirement to sell, management considers available evidence to assess whether it is more likely-than-not that all amounts due would not be collected In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligors, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates.

Based on an analysis of its impaired securities as of September 30, 2009, the Company determined that none of such securities had other-than-temporary impairment.

4) Loans and Leases

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

(Dollars in thousands)	At September 30, 2009 Amount	At September 30, 2009 Percent	At December 31, 2008 Amount	At December 31, 2008 Percent
Real Estate Loans:				
Residential real estate	$ 736,595	18.8%	$ 786,869	19.4%
Loans held for sale	54,475	1.4%	54,976	1.4%
Total	791,070	20.2%	841,845	20.8%
Commercial Loans:				
Real estate	1,934,200	49.3%	1,935,341	47.8%
Other commercial	627,083	16.0%	645,033	15.9%
Total	2,561,283	65.3%	2,580,374	63.7%
Consumer and other Loans:				
Consumer	195,742	5.0%	208,166	5.1%
Home equity	504,343	12.9%	507,831	12.5%
Total	700,085	17.9%	715,997	17.6%
Net deferred loan fees, premiums and discounts	(6,188)	-0.2%	(8,023)	-0.2%
Allowance for loan and lease losses	(125,330)	-3.2%	(76,739)	-1.9%
Loan receivable, net	$ 3,920,920	100.0%	$ 4,053,454	100.0%

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

(Dollars in thousands)	September 30, 2009	December 31, 2008	Septe 2
Real estate and other assets owned	$ 54,537	11,539	
Accruing Loans 90 days or more overdue	2,891	8,613	
Non-accrual loans	185,577	64,301	5
Total non-performing assets	$243,005	84,453	7
Non-performing assets as a percentage of total bank assets	4.10%	1.46%	

Impaired loans, net of government guaranteed amounts, were $207,054,000, $79,949,000, and $66,695,000 as of September 30, 2009, December 31, 2008 and

September 30, 2008, respectively. The allowance for loan and lease loss includes valuation allowances of $23,056,000, $7,999,000 and $7,514,000 specific to impaired loans as of September 30, 2009, December 31, 2008 and September 30, 2008, respectively.

The following table illustrates the loan and lease loss experience:

(Dollars in thousands)	September 30, 2009	December 31, 2008	Septe 2
Balance at the beginning of the year	$ 76,739	54,413	54
Charge-offs	(40,991)	(9,839)	(5
Recoveries	1,677	1,060	
Net charge-offs	$ (39,314)	(8,779)	(5
Acquisition(1)	--	2,625	
Provision	87,905	28,480	16
Balance at the end of the period	$ 125,330	76,739	65
Net charge-offs as a percentage of total loans	0.972%	0.213%	0

(1) Acquisition of Bank of the San Juans in 2008

5) Intangible Assets

The following table sets forth information regarding the Company's core deposit intangible and mortgage servicing rights as of September 30, 2009:

(Dollars in thousands)	Core Deposit Intangible	Mortgage Servicing Rights (1)	Total
Gross carrying value	$ 27,808		
Accumulated Amortization	(17,089)		
Net carrying value	$ 10,719	1,079	11,798
WEIGHTED-AVERAGE AMORTIZATION PERIOD			
(Period in years)	10.0	9.5	10.0
AGGREGATE AMORTIZATION EXPENSE			
For the three months ended September 30, 2009	$ 758	57	815
For the nine months ended September 30, 2009	2,294	197	2,491
ESTIMATED AMORTIZATION EXPENSE			
For the year ended December 31, 2009	$ 2,972	254	3,226
For the year ended December 31, 2010	2,603	74	2,677
For the year ended December 31, 2011	1,895	72	1,967
For the year ended December 31, 2012	1,534	70	1,604
For the year ended December 31, 2013	1,283	68	1,351

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

Acquisitions subsequent January 1, 2009 are accounted for as prescribed by FASB ASC Topic 805, Business Combinations. Acquisition accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets. Goodwill is recorded for the residual amount in excess of the net fair value.

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

6) Deposits

The following table illustrates the amounts outstanding for deposits $100,000 and greater at September 30, 2009 according to the time remaining to maturity. Included in the Certificates of Deposit are brokered deposits of $153,140,000 issued through the Certificate of Deposit Account Registry System. Included in the Non-Maturity Deposits are brokered deposits of $60,816,000.

(Dollars in thousands)	Certificates of Deposit	Non-Maturity Deposits	Totals
Within three months	$202,715	1,369,503	1,572,218
Three to six months	115,957	--	115,957
Seven to twelve months ...	197,175	--	197,175
Over twelve months	78,028	--	78,028
Totals	$593,875	1,369,503	1,963,378

7) Advances and Other Borrowings

The following chart illustrates the average balances and the maximum outstanding month-end balances of amounts borrowed through FHLB, repurchase agreements, U.S. Treasury Tax and Loan and FRB discount window programs:

(Dollars in thousands)	As of and for the nine months ended September 30, 2009	As of and for the year ended December 31, 2008	Sep
FHLB advances:			

Amount outstanding at end of period	$ 640,735	338,456
Average balance	$ 413,446	566,933
Maximum outstanding at any month-end	$ 640,735	822,107
Weighted average interest rate	1.86%	2.71%
Repurchase agreements:		
Amount outstanding at end of period	$ 210,519	188,363
Average balance	$ 196,562	188,952
Maximum outstanding at any month-end	$ 210,519	196,461
Weighted average interest rate	0.99%	2.02%
U.S. Treasury Tax and Loan:		
Amount outstanding at end of period	$ 3,009	6,067
Average balance	$ 3,511	165,690
Maximum outstanding at any month-end	$ 5,120	385,246
Weighted average interest rate	0.00%	2.28%
Federal Reserve Bank discount window:		
Amount outstanding at end of period	$ 370,000	914,000
Average balance	$ 776,592	277,611
Maximum outstanding at any month-end	$1,005,000	928,000
Weighted average interest rate	0.27%	1.76%

8) Stockholders' Equity

The Federal Reserve Board has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. The following table illustrates the Federal Reserve Board's capital adequacy guidelines and the Company's compliance with those guidelines as of September 30, 2009.

(Dollars in thousands)	Tier 1 (Core) Capital	Tier 2 (Total) Capital	Leverage Capital
Total stockholder's equity	$ 698,102	698,102	698,102
Less: Goodwill and intangibles	(156,231)	(156,231)	(156,231)
Accumulated other comprehensive			
Unrealized gain on AFS securities	(15,146)	(15,146)	(15,146)
Plus: Allowance for loan and lease losses	--	57,011	--
Subordinated debentures	117,500	117,500	117,500
Regulatory capital computed	$ 644,225	701,236	644,225
Risk weighted assets	$4,492,843	4,492,843	
Total adjusted average assets			$5,457,673
Capital as % of risk weighted assets	14.34%	15.61%	11.80%
Regulatory "well capitalized" requirement	6.00%	10.00%	5.00%
Excess over "well capitalized" requirement ...	8.34%	5.61%	6.80%

9) Computation of (Loss) Earnings Per Share

Basic (loss) earnings per common share is computed by dividing net (loss) earnings by the weighted average number of shares of common stock outstanding during the period presented. Diluted (loss) earnings per share is computed by including the net increase in shares as if dilutive outstanding stock options were exercised, using the treasury stock method.

The following schedule contains the data used in the calculation of basic and diluted earnings per share:

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months e September 3
Net (loss) earnings for common stockholders	$(1,531,000)	12,785,000	24,900,
Average outstanding shares - basic	61,519,808	54,104,560	61,499,
Add: Dilutive stock options	--	200,445	2,
Average outstanding shares - diluted	61,519,808	54,305,005	61,502,
Basic (loss) earnings per share	$ (0.03)	0.23	0
Diluted (loss) earnings per share	$ (0.03)	0.24	0

There were approximately 2,676,071 and 1,442,110 average shares excluded from the diluted average outstanding share calculation for the nine months ended September 30, 2009 and 2008, respectively, due to the option exercise price exceeding the market price.

10) Comprehensive Income

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

(Dollars in thousands)	For the three months ended September 30, 2009	2008	For the nine ended Septem 2009	
Net (loss) earnings	$ (1,531)	12,785	24,900	
Unrealized holding gain (loss) arising during the period	31,492	(13,445)	29,626	(
Tax (expense) benefit	(12,342)	5,267	(11,615)	
Net after tax	19,150	(8,178)	18,011	(
Reclassification adjustment for (gains) losses included in net (loss) earnings	(2,667)	7,593	(2,667)	
Tax expense (benefit)	1,045	(2,961)	1,045	
Net after tax	(1,622)	4,632	(1,622)	
Net unrealized gain (loss) on securities	17,528	(3,546)	16,389	

Total comprehensive income	$ 15,997	9,239	41,289

11) Federal and State Income Taxes

The Company and its financial institution subsidiaries join together in the filing of consolidated income tax returns in the following jurisdictions: federal, Montana, Idaho, Colorado and Utah. Although 1st Bank has operations in Wyoming and Mountain West has operations in Washington, neither Wyoming nor Washington impose a corporate level income tax. All required income tax returns have been timely filed. Income tax returns for the years ended December 31, 2006, 2007 and 2008 remain subject to examination by the state of Utah tax authorities, income tax returns for the years ended December 31, 2005, 2006, 2007, and 2008 remain subject to examination by the federal, states of Montana, Colorado, Idaho tax authorities, income tax returns for the year ended December 31, 2004 remain subject to examination by the states of Colorado, Montana and Idaho and the income tax returns for the year ended December 31, 2003 remain subject to examination by the states of Montana and Idaho.

During the second quarter 2009, the Company made investments in Certified Development Entities which received NMTC allocations. Administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury, the NMTC program is aimed at stimulating economic and community development and job creation in low-income communities. The federal tax credits received are claimed over a seven-year credit allowance period. In addition to previous LIHTC investments, during the third quarter 2009, the Company made another investment in a low-income housing partnership. The LIHTC is an indirect Federal subsidy used to finance the development of affordable rental housing for low-income households. The federal tax credits received are claimed over a ten-year credit allowance period. Following is a list of expected tax credits to be received in the years indicated.

Years ended (Dollars in thousands)	New Market Tax Credits	Low-Income Housing Tax Credits
2009	$1,115	210
2010	1,115	337
2011	1,115	785
2012	1,338	785
2013	1,338	785
2014	1,338	785
2015	1,338	575
2016	-	575
2017	-	575
2018	-	575
2019	-	575
2020	-	448
	$8,697	7,010

In accordance with FASB ASC Topic 740, Income Taxes, the Company determined its unrecognized tax benefit to be $113,000 as of September 30, 2009. If the unrecognized tax benefit amount was recognized, it would decrease the Company's effective tax rate from 15.6 percent to 15.2 percent. Management believes that it is unlikely that the balance of its unrecognized tax benefits will significantly increase or decrease over the next twelve months.

The Company recognizes interest related to unrecognized income tax benefits in interest expense and penalties are recognized in other expense. During the nine months ended September 30, 2009 and 2008, the Company recognized $0 interest expense and recognized $0 penalty with respect to income tax liabilities. The Company had approximately $20,000 and $37,000 accrued for the payment of interest at September 30, 2009 and 2008, respectively. The Company had accrued liabilities of $0 for the payment of penalties at September 30, 2009 and 2008.

12) Segment Information

FASB ASC Topic 280, Segment Reporting requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance. The Company defines operating segments and evaluates segment performance internally based on individual bank charters. Centrally provided services to the banks are allocated based on estimated usage of those services. If required, VIEs are consolidated into the operating segment which invested into such entities. Intersegment revenues primarily represents interest income on intercompany borrowings, management fees, and data processing fees received by individual banks or the parent company. Intersegment revenues, expenses and assets are eliminated in order to report results in accordance with accounting principles generally accepted in the United States of America.

19

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

	Nine months ended and as of September 30, 2009					
(Dollars in thousands)	Glacier	Mountain West	First Security	Western	1st Bank	Big S
Revenues from external customers	$ 61,568	68,880	40,832	26,776	25,091	16,4
Intersegment revenues	140	7	631	436	236	
Expenses	(51,761)	(77,178)	(32,410)	(21,981)	(24,496)	(15,1
Net (Loss) Earnings	$ 9,947	(8,291)	9,053	5,231	831	1,2
Total Assets	$1,289,115	1,246,907	901,579	590,689	597,536	362,3

	Citizens	San Juans	First Bank of MT	Parent	Eliminations	C
Revenues from external customers	$ 12,557	8,020	7,576	169	--	
Intersegment revenues	2	--	3	38,168	(39,719)	
Expenses	(10,732)	(6,779)	(5,505)	(13,437)	11,735	
Net (Loss) Earnings	$ 1,827	1,241	2,074	24,900	(27,984)	
Total Assets	$244,238	179,799	204,224	827,473	(1,042,593)	

	Nine months ended and as of September 30, 200					
(Dollars in thousands)	Glacier	Mountain West	First Security	Western	1st Bank	Big
Revenues from external customers	$ 63,728	64,740	41,779	22,807	25,463	18
Intersegment revenues	254	63	2,009	1,253	995	
Expenses	(49,195)	(57,870)	(32,910)	(21,043)	(21,476)	(14
Net Earnings	$ 14,787	6,933	10,878	3,017	4,982	4
Total Assets	$1,186,942	1,161,017	886,303	587,946	581,660	334

	Citizens	First Bank of MT	Parent	Eliminations	Total Consolidate
Revenues from external customers	$ 10,855	7,036	295	--	271,67
Intersegment revenues	168	125	62,394	(67,679)	-
Expenses	(9,447)	(5,452)	(14,046)	14,975	(223,03
Net Earnings	$ 1,576	1,709	48,643	(52,704)	48,64
Total Assets	$212,750	160,349	691,760	(973,020)	5,173,10

20

	Three months ended and as of September 30, 200					
(Dollars in thousands)	Glacier	Mountain West	First Security	Western	1st Bank	Big

Revenues from external customers	$ 20,546	23,641	14,188	8,782	8,310	5
Intersegment revenues	47	6	76	65	110	
Expenses	(17,995)	(34,135)	(12,019)	(7,170)	(7,556)	(5
Net (Loss) Earnings	$ 2,598	(10,488)	2,245	1,677	864	
Total Assets	$1,289,115	1,246,907	901,579	590,689	597,536	362

	Citizens	San Juans	First Bank of MT	Parent	Eliminations	C
Revenues from external customers	$ 4,452	2,849	2,643	53	--	
Intersegment revenues	--	--	3	2,926	(3,244)	
Expenses	(3,822)	(2,473)	(1,894)	(4,510)	3,685	
Net (Loss) Earnings	$ 630	376	752	(1,531)	441	
Total Assets	$244,238	179,799	204,224	827,473	(1,042,593)	

	Three months ended and as of September 30, 200					
(Dollars in thousands)	Glacier	Mountain West	First Security	Western	1st Bank	Big
Revenues from external customers	$ 21,369	21,190	13,882	4,273	8,765	6
Intersegment revenues	172	38	1,062	609	124	
Expenses	(17,028)	(20,223)	(11,156)	(5,919)	(7,093)	(4
Net (Loss) Earnings	$ 4,513	1,005	3,788	(1,037)	1,796	1
Total Assets	$1,186,942	1,161,017	886,303	587,946	581,660	334

	Citizens	First Bank of MT	Parent	Eliminations	Total Consolidate
Revenues from external customers	$ 3,848	2,488	66	--	87,44
Intersegment revenues	3	1	17,596	(19,811)	-
Expenses	(3,217)	(1,905)	(4,877)	5,453	(74,65
Net (Loss) Earnings	$ 634	584	12,785	(14,358)	12,78
Total Assets	$212,750	160,349	691,760	(973,020)	5,173,10

13) Fair Value Measurement

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

21

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following are the assets measured at fair value on a recurring basis at and for the period ended September 30, 2009.

(Dollars in thousands)	Carrying value of Assets/ Liabilities at 9/30/09	Assets/ Liabilities measured at Fair Value 9/30/09	Quoted pri in active ma for identi assets (Level 1)
Financial Assets:			
U.S. Government Agencies......................	$ 209	209	--
Government Sponsored Enterprises...............	278	278	--
State and Local Governments and other issues....	451,115	451,115	--
Collateralized Debt Obligations................	6,600	6,600	--
Residential Mortgage-backed securities.........	692,625	692,625	--
Total financial assets......................	$1,150,827	1,150,827	--

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

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

classified as Level 3 within the hierarchy.

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine month period ended September 30, 2009.

(Dollars in thousands)	Significant unobservable inputs (Level 3)
Balance as of December 31, 2008	$23,421
Total unrealized gain included in other comprehensive income	7,865
Transfers out of Level 3	(7,597)
Purchases, issuances and settlements	60,515
Amortization, accretion and principal payments	(181)
Balance as of September 30, 2009	$84,023

The change in unrealized gains (losses) related to available-for-sale securities is reported in Accumulated Other Comprehensive Income (Loss).

22

Certain financial assets or liabilities are not measured at fair value on a recurring basis, but are subject to fair value measurement in certain circumstances, for example upon acquisition or when there is evidence of impairment. The following are the assets measured at fair value on a nonrecurring basis at September 30, 2009.

(Dollars in thousands)	Carrying value of Assets/ Liabilities at 9/30/09	Assets/ Liabilities measured at Fair Value 9/30/09	Quoted prices in active markets for identical assets (Level 1)
Real estate and other assets owned, net	$ 54,537	54,537	--
Impaired Loans, net of allowance for loan and lease losses	183,998	183,998	--
Total	$238,535	238,535	--

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

Real estate and other assets owned, net - real estate and other assets

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

Impaired loans, net of ALLL - loans included in the Company's financials for which it is probable that the Company will not collect all principal and interest due according to contractual terms are considered impaired in accordance with FASB ASC Topic 310, Receivables. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method. Impaired loans are primarily collateral-dependent and the estimated fair value is based on the fair value of the collateral. Impaired loans are classified within Level 3 of the fair value hierarchy.

23

The following presents the estimated fair values as in accordance with FASB ASC Topic 825, Financial Instruments, as of September 30, 2009.

	September 30, 2009	
(Dollars in thousands)	Amount	Fair Value
Financial Assets:		
Cash on hand and in banks	$ 93,728	93,728
Federal funds sold	47,025	47,025
Interest bearing cash deposits	2,570	2,570
Investment securities	458,666	458,666
Residential Mortgage-backed securities	692,625	692,625
FHLB and FRB stock	61,656	61,656
Loans receivable, net of allowance for loan and lease losses	3,920,920	3,919,067
Accrued interest receivable	29,489	29,489
Total financial assets	$5,306,679	5,304,826
Financial Liabilities:		
Deposits	$3,611,017	3,621,869
Advances from the FHLB	640,735	645,829
Federal Reserve Bank discount window	370,000	370,000
Repurchase agreements and other borrowed funds	225,583	225,603
Subordinated debentures	120,167	69,935
Accrued interest payable	8,015	8,015
Total financial liabilities	$4,975,517	4,941,251

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

Financial Assets

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

financial assets.

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

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

Financial Liabilities

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

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

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

FRB discount window - fair value of FRB discount window borrowings is estimated based on borrowing rates currently available to the Company for FRB discount window borrowings with similar terms and maturities.

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

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

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

14) Rate/Volume Analysis

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

to volume and the change due to rate.

(Dollars in thousands)	Nine Months Ended September 30, 2009 vs. 2008 Increase (Decrease) due to:		
	Volume	Rate	Net
INTEREST INCOME			
Residential real estate loans	$ 5,138	(1,388)	3,750
Commercial loans	13,022	(25,564)	(12,542)
Consumer and other loans	2,212	(4,445)	(2,233)
Investment securities and other	9,002	128	9,130
Total Interest Income	29,374	(31,269)	(1,895)
INTEREST EXPENSE			
NOW accounts	359	(1,171)	(812)
Savings accounts	171	(826)	(655)
Money market accounts	(206)	(7,037)	(7,243)
Certificates of deposit	4,720	(10,072)	(5,352)
FHLB advances	(2,869)	(4,249)	(7,118)
Other borrowings and repurchase agreements	8,907	(16,606)	(7,699)
Total Interest Expense	11,082	(39,961)	(28,879)
NET INTEREST INCOME	$18,292	8,692	26,984

25

15) Average Balance Sheet

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

(Dollars in thousands)	For the Three months ended 9/30/09			For the
	Average Balance	Interest & Dividends	Average Yield/ Rate	Averag Balanc
ASSETS				
Residential real estate loans	$ 796,781	13,330	6.69%	$ 833,0
Commercial loans	2,583,367	36,739	5.64%	2,597,5
Consumer and other loans	697,015	11,150	6.35%	701,8
Total Loans	4,077,163	61,219	5.96%	4,132,4
Tax - exempt investment securities (1)	441,309	5,623	5.10%	439,8

Other investment securities	693,217	7,588	4.38%	619,0
Total Earning Assets	5,211,689	74,430	5.67%	5,191,3
Goodwill and core deposit intangible	157,407			158,2
Other non-earning assets	244,808			232,7
TOTAL ASSETS	$5,613,904			$5,582,4
LIABILITIES AND STOCKHOLDERS' EQUITY				
NOW accounts	$ 557,003	496	0.35%	$ 534,3
Savings accounts	325,367	258	0.31%	303,6
Money market accounts	756,171	1,938	1.02%	756,8
Certificates of deposit	1,071,346	6,540	2.42%	1,010,2
FHLB advances	533,976	2,087	1.55%	413,4
Repurchase agreements and other borrowed funds	892,581	2,482	1.10%	1,103,6
Total Interest Bearing Liabilities	4,136,444	13,801	1.32%	4,122,1
Non-interest bearing deposits	755,682			734,0
Other liabilities	27,956			34,5
Total Liabilities	4,920,082			4,890,7
Common stock	615			6
Paid-in capital	495,410			494,7
Retained earnings	198,475			195,4
Accumulated other comprehensive (loss) gain	(678)			9
Total Stockholders' Equity	693,822			691,7
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,613,904			$5,582,4
Net interest income		$60,629		
Net interest spread			4.35%	
Net Interest Margin			4.62%	
Net Interest Margin (Tax Equivalent)			4.80%	
Return on average assets (annualized)			(0.11%)	
Return on average equity (annualized)			(0.88%)	

(1) Excludes tax effect of $7,390,000 and $2,489,000 on non-taxable investment security income for the three and nine months ended September 30, 2009.

26

16) Subsequent Events

Subsequent events have been evaluated through November 6, 2009, which is the date the financial statements were issued.

In October of 2009, the Company sold Residential Mortgage-Backed securities and received gross proceeds of $2,238,000, which resulted in gross gains of $2,117,000. Had such securities been sold on September 30, 2009, the after-tax effect of $1,287,000 would have decreased the net loss for the quarter from $1,531,000 to $244,000.

On October 2, 2009, the Company completed the acquisition of First Company and its subsidiary First National Bank & Trust, a community bank based in Powell, Wyoming. First National Bank & Trust provides community banking services from three branch locations in Powell, Cody, and Lovell, Wyoming. As of the acquisition, First National Bank & Trust had total assets of approximately $267 million. First National Bank & Trust will operate as a separate wholly-owned subsidiary of the Company.

27

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

RESULTS OF OPERATIONS - THE THREE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO JUNE 30, 2009 AND SEPTEMBER 30, 2008

Performance Summary

The Company reported a net loss of $1.531 million for the third quarter, a decrease of $14.316 million, or 112 percent, from the $12.785 million net income reported for the third quarter of 2008. The diluted loss per share of $.03 for the quarter represented a 113 percent decrease from the diluted earnings per share of $.24 for the same quarter of 2008. Annualized return on average assets and return on average equity for the third quarter were (.11) percent and (.88) percent, which compares with prior year returns for the third quarter of 1.01 percent and 9.15 percent, respectively.

REVENUE SUMMARY

	Three months ended		
(UNAUDITED - DOLLARS IN THOUSANDS)	September 30, 2009 (unaudited)	June 30, 2009 (unaudited)	September 30, 2008 (unaudited)
Net interest income			
Interest income	$74,430	$74,420	$75,689
Interest expense	13,801	13,939	22,113
Net interest income	60,629	60,481	53,576
Non-interest income			
Service charges, loan fees, and other fees	12,103	11,377	12,800
Gain on sale of loans	5,613	9,071	3,529
Gain (loss) on investments	2,667	-	(7,593)
Other income	1,317	870	3,018
Total non-interest income	21,700	21,318	11,754
	$82,329	$81,799	$65,330
Tax equivalent net interest margin	4.80%	4.87%	4.65%

$ change from June 30,	$ change from September 30,	% change from June 30,

(UNAUDITED - DOLLARS IN THOUSANDS)	2009	2008	2009
Net interest income			
Interest income	$ 10	$(1,259)	0%
Interest expense	(138)	(8,312)	-1%
Net interest income	148	7,053	0%
Non-interest income			
Service charges, loan fees, and other fees	726	(697)	6%
Gain on sale of loans	(3,458)	2,084	-38%
Gain on investments	2,667	10,260	n/m
Other income	447	(1,701)	51%
Total non-interest income	382	9,946	2%
	$ 530	$ 16,999	1%

n/m - not measurable

28

Net Interest Income

Net interest income for the quarter increased $7 million, or 13 percent, with interest expense decreasing $8 million, or 38 percent, over the same period in 2008. Net interest income for the current quarter increased $148 thousand with interest expense decreasing $138 thousand, or 1 percent, compared to the prior quarter. The decrease in total interest expense is primarily attributable to rate decreases in interest bearing deposits and lower cost borrowings. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.80 percent which is 7 basis points lower than the 4.87 percent achieved for the prior quarter; however 15 basis points higher than the 4.65 percent result for the third quarter of 2008.

Non-interest Income

Non-interest income for the quarter increased $382 thousand, or 2 percent, from the prior quarter, and increased $10 million, or 85 percent, over the same period in 2008. Fee income increased $726 thousand, or 6 percent, during the quarter, compared to the decrease of $697 thousand, or 5 percent, over the same period last year. Gain on sale of loans decreased $3.5 million, or 38 percent, for the quarter a result of the slowdown in refinance activity from a very active second quarter. Gain on sale of loans from the prior year increased $2 million, or 59 percent, primarily the result of increased refinancing of residential loans originated and sold in the secondary market. Investments sold during the quarter resulted in a $2.7 million gain compared to the prior year loss of $7.6 million from an other than temporary impairment on investments in Federal Home Loan Mortgage Corporation ("Freddie Mac") preferred stock and Federal National Mortgage Association ("Fannie Mae") common stock. Other income decreased $1.7 million from prior year, the result of a $1.7 million gain from the sale and relocation of Mountain West Bank's office facility in Ketchum, Idaho during the third quarter of 2008.

NON-INTEREST EXPENSE

Three months ended

(UNAUDITED - DOLLARS IN THOUSANDS)	September 30, 2009 (unaudited)	June 30, 2009 (unaudited)	September 30, 2008 (unaudited)
Compensation and employee benefits	$20,935	$20,710	$21,188
Occupancy and equipment expense	5,835	5,611	5,502
Advertising and promotion expense	1,596	1,722	1,942
Outsourced data processing	830	680	556
Core deposit intangibles amortization	758	762	764
Other expenses	11,942	13,478	7,809
Total non-interest expense	$41,896	$42,963	$37,761

(UNAUDITED - DOLLARS IN THOUSANDS)	$ change from June 30, 2009	$ change from September 30, 2008	% change from June 30, 2009	% chan Septem 2
Compensation and employee benefits	$ 225	$ (253)	1%	
Occupancy and equipment expense	224	333	4%	
Advertising and promotion expense	(126)	(346)	-7%	-
Outsourced data processing	150	274	22%	
Core deposit intangibles amortization	(4)	(6)	-1%	
Other expenses	(1,536)	4,133	-11%	
Total non-interest expense	$(1,067)	$4,135	-2%	

Non-interest expense decreased by $1 million, or 2 percent from the prior quarter and increased $4 million, or 11 percent, from prior year's third quarter. Compensation and employee benefits increased $225 thousand, or 1 percent, from prior quarter and decreased $253 thousand, or 1 percent, from prior year's third quarter. The current quarter increase in compensation and employee benefits is a result of prior quarter's significant reductions in

bonuses and employee benefits tied to Company performance. The number of full-time equivalent employees decreased from 1,597 to 1,577 during the quarter, and increased from 1,539 since the end of the 2008 third quarter. Occupancy and equipment expense has increased $224 thousand, or 4 percent, and $333 thousand, or 6 percent, from prior quarter and prior year's third quarter, respectively, reflecting the cost of additional branch locations and facility upgrades. Advertising and promotion expense decreased $126 thousand, or 7 percent, from prior quarter and decreased $346 thousand, or 18 percent, from the same quarter of 2008. The decrease of $1.5 million, or 11 percent, in other expense from prior quarter is a result of a decrease in $2.1 million in FDIC insurance and an increase of $565 thousand in expenses associated with repossessed assets. The increase of $4.1 million, or 53 percent, in other expense from prior year's third quarter is a result of an increase of $1.3 million in FDIC insurance, $1.8 million of loss from sales of other real estate owned, and $830 thousand in expenses associated with repossessed assets.

The efficiency ratio (non-interest expense / net interest income plus

non-interest income) was 51 percent for the quarter, compared to 53 percent, excluding the effects of the other than temporary impairment on investments and gain on sale of branch, for the 2008 third quarter.

Allowance for Loan and Lease Losses

The current quarter provision for loan loss expense was $47 million, an increase of $38 million from the same quarter in 2008. Net charged-off loans for the quarter were $19 million.

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

30

RESULTS OF OPERATIONS - THE NINE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2008

Performance Summary

Net earnings for the nine months ended September 30, 2009 were $24.900 million, which is a decrease of $23.743 million, or 49 percent, over the prior year. Diluted earnings per share of $.40, is a decrease of 56 percent from the $.90 earned in 2008.

REVENUE SUMMARY

	Nine months ended			
(UNAUDITED - DOLLARS IN THOUSANDS)	September 30, 2009 (unaudited)	September 30, 2008 (unaudited)	$ change	%
Interest income	$224,382	$226,278	$ (1,896)	
Interest expense	42,894	71,773	(28,879)	
Net interest income	181,488	154,505	26,983	
Non-interest income				
Service charges, loan fees, and other fees	33,659	35,984	(2,325)	
Gain on sale of loans	20,834	11,654	9,180	
Gain (loss) on investments	2,667	(7,345)	10,012	
Other income	3,235	5,104	(1,869)	
Total non-interest income	60,395	45,397	14,998	
	$241,883	$199,902	$ 41,981	
Tax equivalent net interest margin	4.87%	4.65%		

Net Interest Income

Net interest income for the nine months increased $27 million, or 17 percent,

over the same period in 2008. Total interest income decreased $1.9 million, or 1 percent, while total interest expense decreased $29 million, or 40 percent. The decrease in interest expense is primarily attributable to the rate decreases on interest bearing deposits and lower cost borrowings. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.87 percent, an increase of 22 basis points from the 4.65 percent for the same period in 2008.

Non-interest Income

Total non-interest income for the nine months increased $15 million, or 33 percent over the same period in 2008. Fee income for the year decreased $2.3 million, or 6 percent, as compared to 2008. Gain on sale of loans increased $9 million, or 79 percent, from the first nine months of last year, primarily the result of increased refinancing of residential loans originated and sold in the secondary market. Gain on investments during 2009 included a $2.7 million gain on sale of securities. Loss from investments during 2008 included a $7.6 million other than temporary impairment on investments in Freddie Mac preferred stock and Fannie Mae common stock and a $248 thousand combined gain from the sale of Principal Financial Group stock and mandatory redemption of a portion of Visa, Inc. Other income decreased $1.9 million from prior year, the result of a $1.7 million gain from the sale and relocation of Mountain West Bank's office facility in Ketchum, Idaho during the third quarter of 2008.

31

NON-INTEREST EXPENSE

	Nine months ended			
(UNAUDITED - DOLLARS IN THOUSANDS)	September 30, 2009 (unaudited)	September 30, 2008 (unaudited)	$ change	% change
Compensation and employee benefits	$ 63,589	$ 63,252	$ 337	1%
Occupancy and equipment expense	17,341	15,751	1,590	10%
Advertising and promotion expense	5,042	5,314	(272)	-5%
Outsourced data processing	2,181	1,870	311	17%
Core deposit intangibles amortization	2,294	2,310	(16)	-1%
Other expenses	34,038	21,320	12,718	60%
Total non-interest expense	$124,485	$109,817	$14,668	13%

Non-interest expense increased by $15 million, or 13 percent, from the first nine months of 2008. Compensation and employee benefit expense increased $337 thousand, or 1 percent, from the first nine months of 2008, due to the increased number of employees added since September 30, 2008, which was partially offset by the reductions in bonuses and employee benefits. Occupancy and equipment expense increased $2 million, or 10 percent, reflecting the cost of additional locations and facility upgrades. Advertising and promotion expense decreased $272 thousand, or 5 percent, from 2008. Other expenses increased $13 million, or 60 percent, since September 30, 2008. The increase in other expenses includes $5.7 million in FDIC insurance premiums, $1.3 million in outside legal, accounting, and audit firm expense, $3.8 million loss from sales of other real estate owned, and $1.5 million expense associated with repossessed assets. Of the increase in FDIC insurance premiums year-to-date, $2.5 million is attributable to the second quarter asset-based special assessment. The

efficiency ratio (non-interest expense/net interest income plus non-interest income) was 51 percent for 2009 compared favorably to 55 percent for 2008.

Allowance for Loan and Lease Losses

The provision for loan loss expense was $88 million for the first nine months of 2009, an increase of $72 million, or 441 percent, from the same period in 2008. Net charged-off loans during the nine months ended September 30, 2009 was $39 million, an increase of $34 million from the same period in 2008.

32

FINANCIAL CONDITION ANALYSIS

As reflected in the following table, total assets at September 30, 2009 were $5.708 billion, which is $154 million, or 3 percent, greater than the total assets of $5.554 billion at December 31, 2008 and an increase of $535 million, or 10 percent, over the total assets of $5.173 billion at September 30, 2008.

ASSETS (DOLLARS IN THOUSANDS)	September 30, 2009 (unaudited)	December 31, 2008 (audited)	September 30, 2008 (unaudited)	$ change Decembe 2008
Cash on hand and in banks	$ 93,728	125,123	94,865	(31,
Investment securities, interest bearing deposits, FHLB stock, FRB stock, and fed funds	1,262,542	1,000,224	867,366	262,
Loans:				
Real estate	787,911	838,375	769,860	(50,
Commercial	2,558,270	2,575,828	2,452,102	(17,
Consumer and other	700,069	715,990	700,658	(15,
Total loans	4,046,250	4,130,193	3,922,620	(83,
Allowance for loan and lease losses	(125,330)	(76,739)	(65,633)	(48,
Total loans, net of allowance for loan and lease losses	3,920,920	4,053,454	3,856,987	(132,
Other assets	431,110	375,169	353,891	55,
Total Assets	$5,708,300	5,553,970	5,173,109	154,

At September 30, 2009, total loans were $4.046 billion, a decrease of $84 million, over total loans of $4.130 billion at December 31, 2008, primarily the result of decreased loan demand. Real estate loans decreased $50 million, or 6 percent, from the fourth quarter of 2008. Consumer loans, which are primarily comprised of home equity loans, decreased by $16 million, or 2 percent, while commercial loans decreased $18 million, or less than 1 percent, during the first nine months of 2009. Total loans increased $124 million, or 3 percent from September 30, 2008. Since September 30, 2008, commercial loans increased $106 million, or 4 percent, real estate loans grew by $18 million, or 2 percent, and consumer loans decreased $589 thousand, or less than 1 percent.

Investment securities, including interest bearing deposits in other financial

institutions and federal funds sold, have increased $262 million, or 26 percent, from December 31, 2008 and increased $395 million, or 46 percent, from September 30, 2008. Investment securities represented 22 percent of total assets at September 30, 2009 versus 17 percent of total assets at September 30, 2008. The Company continues to purchase investment securities when high quality loan originations slow.

The Company typically sells a majority of long-term mortgage loans originated, retaining servicing only on loans sold to certain lenders. The sale of loans in the secondary mortgage market reduces the Company's risk of holding long-term fixed rate loans in the loan portfolio. Mortgage loans sold with servicing released for the nine months ended September 30, 2009 and 2008 were $982 million and $520 million, respectively, and for the three months ended September 30, 2009 and 2008 were $276 million and $164 million, respectively. The Company has also been active in originating commercial SBA loans, some of which are sold to investors. The amount of loans sold and serviced for others at September 30, 2009 was approximately $179 million.

Allowance for Loan and Lease Losses

Determining the adequacy of the ALLL involves a high degree of judgment and is inevitably imprecise as the risk of loss is difficult to quantify. The ALLL methodology is designed to reasonably estimate the probable loan and lease losses within each bank subsidiary's loan and lease portfolios. Accordingly, the ALLL is maintained within a range of estimated losses. The determination of the ALLL and the related provision for credit losses is a critical

accounting estimate that involves management's judgments about all known relevant internal and external environmental factors that affect loan losses, including the credit risk inherent in the loan and lease portfolios, economic conditions nationally and in the local markets in which the community bank subsidiaries operate, changes in collateral values, delinquencies, non-performing assets and net charge-offs. Although the Company and the banks continue to actively monitor economic trends, a softening of economic conditions combined with declines in the values of real estate that collateralize most of the Company's loan and lease portfolios may adversely affect the credit risk and potential for loss to the Company.

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

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

The Company is committed to a conservative management of the credit risk within the loan and lease portfolios, including the early recognition of problem loans. The Company's credit risk management includes stringent credit policies, individual loan approval limits, limits on concentrations of credit, and committee approval of larger loan requests. Management practices also include

regular internal and external credit examinations, identification and review of individual loans and leases experiencing deterioration of credit quality, procedures for the collection of non-performing assets, quarterly monitoring of the loan and lease portfolios, semi-annual review of loans by industry, and periodic stress testing of the loans secured by real estate.

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

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 the ALLL adequacy. An independent loan review function verifying credit risk ratings evaluates the loan officer and management's evaluation of the loan portfolio credit quality. The loan review function also assesses the evaluation process and provides an independent analysis of the adequacy of the ALLL.

The Company considers the ALLL balance of $125.3 million adequate to cover inherent losses in the loan and lease portfolios as of September 30, 2009. However, no assurance can be given that the Company will not, in any particular period, sustain losses that are significant relative to the amount reserved, or that subsequent evaluations of the loan and lease portfolios applying management's judgment about then current factors, including economic and regulatory developments, will not require significant changes in the ALLL. Under such circumstances, this could result in enhanced provisions for credit losses. See additional risk factors in Part II - Other information, Item 1A - Risk Factors.

34

The following table summarizes the allocation of the ALLL:

	September 30, 2009		December 31, 2008		Septe
(Dollars in thousands)	Allowance for loan and lease losses (unaudited)	Percent of loans in category	Allowance for loan and lease losses (audited)	Percent of loans in category	Allowan for loan lease lo (unaudit
Real estate loans	$ 11,959	19.5%	7,233	20.3%	5,97
Commercial real estate loans	59,471	47.7%	35,305	46.8%	29,38
Other commercial loans	33,406	15.5%	21,590	15.6%	19,32
Consumer and other loans	20,494	17.3%	12,611	17.3%	10,95
Totals	$125,330	100.0%	76,739	100.0%	65,63

The following table summarizes ALLL experience:

(Dollars in thousands)	Nine months ended September 30, 2009 (unaudited)	Year ended December 31, 2008 (audited)	Nine months ended September 30, 2008 (unaudited)
Balance at beginning of period	$ 76,739	54,413	54,413
Charge-offs:			
Real estate loans	(10,031)	(3,233)	(1,211)
Commercial loans	(26,408)	(4,957)	(3,692)
Consumer and other loans	(4,552)	(1,649)	(862)
Total charge-offs	$(40,991)	(9,839)	(5,765)
Recoveries:			
Real estate loans	372	23	14
Commercial loans	1,011	716	466
Consumer and other loans	294	321	248
Total recoveries	$ 1,677	1,060	728
Net charge-offs	(39,314)	(8,779)	(5,037)
Acquisition (1)	-	2,625	-
Provision	87,905	28,480	16,257
Balance at end of period	$125,330	76,739	65,633
Allowance for loan and lease losses as a percentage of total loan and leases	3.10%	1.86%	1.67%
Net charge-offs as a percentage of total loans	0.972%	0.213%	0.128%

(1) Acquisition of Bank of the San Juans in 2008

The increase in the ALLL was primarily due to the increase in non-performing assets since December 31, 2008 and a downturn in global, national and local economies.

At September 30, 2009, the allowance for loan and lease losses was $125.33 million, an increase of $60 million, or 91 percent, from a year ago. The allowance was 3.10 percent of total loans outstanding at September 30, 2009, up from 2.36 percent at the prior quarter end, and up from 1.67 percent at September 30, 2008. Loan portfolio growth,

composition, average loan size, credit quality considerations, and other environmental factors will continue to determine the level of additional provision expense.

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

recording real estate owned is charged to the ALLL. Any subsequent write-downs are charged to current expense.

Non-performing Assets

(Dollars in thousands)	At 9/30/09 (unaudited)	At 12/31/08 (audited)	At 9/30/08 (unaudited)
Non-accrual loans:			
Real estate loans	$ 17,295	3,575	2,475
Commercial loans	159,894	58,454	52,458
Consumer and other loans	8,388	2,272	1,389
Total	$185,577	64,301	56,322
Accruing Loans 90 days or more overdue:			
Real estate loans	371	4,103	319
Commercial loans	1,586	2,897	3,839
Consumer and other loans	934	1,613	766
Total	$ 2,891	8,613	4,924
Real estate and other assets owned, net	54,537	11,539	9,506
Total non-performing loans and real estate and other assets owned, net	$243,005	84,453	70,752
Allowance for loan and lease losses as a percentage of non-performing assets	52%	91%	93%
Non-performing assets as a percentage of total bank assets	4.10%	1.46%	1.30%
Accruing Loans 30-89 days or more overdue	$ 43,606	54,787	25,690
Interest Income (1)	$ 8,175	4,434	2,979

(1) Amounts represent estimated interest income that would have been recognized on loans accounted for on a non-accrual basis for the nine months ended September 30, 2009, year ended December 31, 2008 and nine months ended September 30, 2008 had such loans performed pursuant to contractual terms.

The allowance was 52 percent of non-performing assets at September 30, 2009, down from 56 percent for the prior quarter end and down from 93 percent a year ago. Non-performing assets as a percentage of total bank assets at September 30, 2009 were at 4.10 percent, up from 3.06 percent as of prior quarter end, and up from 1.30 percent at September 30, 2008. Each bank subsidiary evaluates the level of its non-performing assets, the values of the underlying real estate and other collateral, and related trends in net charge-offs. Through pro-active credit administration, the Banks work closely with borrowers to seek favorable resolution to the extent possible, thereby attempting to minimize net charge-offs or losses to the Company.

Most of the Company's non-performing assets are secured by real estate. Based on the most current information available to management, including updated appraisals where appropriate, the Company believes the value of the

underlying real estate collateral is adequate to minimize significant

charge-offs or loss to the Company. For collateral dependent loans, impairment is measured by the fair value of the collateral less cost to sell.

Loans are reviewed on a regular basis and are placed on a non-accrual status when the collection of the contractual principal or interest is unlikely. The Company typically places loans on non-accrual when principal or interest is due and has remained unpaid for 90 days or more unless the loan is in process of collection and well-secured by collateral the fair value of which is sufficient to discharge the debt in full. When a loan is placed on non-accrual status, interest previously accrued but not collected is generally reversed against current period interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate repayment of the loan. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The amount of the impairment is measured using cash flows discounted at the loan's effective interest rate, except when it is determined that repayment of the loan is expected to be provided solely by the underlying collateral. For collateral dependent loans, impairment is measured by the fair value of the collateral less the cost to sell. When the ultimate collectability of the total principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal on an impaired loan is not in doubt, contractual interest is generally credited to interest income when received under the cash basis method. Total interest income recognized for impaired loans under the cash basis for the three months ended September 30, 2009 and 2008 was not significant. Impaired loans, net of government guaranteed amounts, were $207.1 million and $66.7 million as of September 30, 2009 and 2008, respectively. The ALLL includes valuation allowances of $23.1 million and $7.5 million specific to impaired loans as of September 30, 2009 and 2008, respectively.

LIABILITIES (DOLLARS IN THOUSANDS)	September 30, 2009 (unaudited)	December 31, 2008 (audited)	September 30, 2008 (unaudited)	$ chang Decemb 20
Non-interest bearing deposits	$ 801,261	747,439	754,623	5
Interest bearing deposits	2,809,756	2,515,036	2,282,147	29
Advances from Federal Home Loan Bank	640,735	338,456	727,243	30
Federal Reserve Bank discount window	370,000	914,000	140,500	(54
U.S. Treasury Tax & Loan	3,009	6,067	357,095	(
Securities sold under agreements to repurchase and other borrowed funds	222,574	190,664	191,938	3
Other liabilities	42,696	44,331	42,013	(
Subordinated debentures	120,167	121,037	118,559	
Total liabilities	$5,010,198	4,877,030	4,614,118	13

As of September 30, 2009, non-interest bearing deposits increased $54 million, or 7 percent, since December 31, 2008 and increased $47 million, or 6 percent, since September 30, 2008. Interest bearing deposits of $2.810 billion at September 30, 2009 includes brokered deposits of $233 million, of which $173 million are issued through the Certificate of Deposit Account Registry System.

Interest bearing deposits increased $295 million, or 12 percent from December 31, 2008, of which $203 million is from brokered deposits. Since September 30, 2008, interest bearing deposits increased $528 million, or 23 percent, resulting from the banks' continued focus on attracting and retaining low cost core deposits. Federal Home Loan Bank ("FHLB") advances increased $302 million, or 89 percent, from December 31, 2008 and decreased $87 million, or 12 percent, from

September 30, 2008. Federal Reserve Bank Discount Window borrowings decreased $544 million, or 60 percent, from December 31, 2008 and increased $230 million, or 163 percent, from September 30, 2008. U.S. Treasury Tax and Loan funds decreased $3 million and $354 million from December 31, 2008 and September 30, 2008, respectively, resulting from the decrease in availability of the treasury investment option term funds. Repurchase agreements and other borrowed funds were $223 million at September 30, 2009, an increase of $32 million from December 31, 2008 and an increase of $31 million, or 16 percent, from September 30, 2008.

STOCKHOLDERS' EQUITY

(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)	September 30, 2009 (unaudited)	December 31, 2008 (audited)	September 30, 2008 (unaudited)
Common equity	$ 682,956	678,183	564,612
Accumulated other comprehensive gain (loss)	15,146	(1,243)	(5,621)
Total stockholders' equity	698,102	676,940	558,991
Core deposit intangible, net, and goodwill	(156,978)	(159,765)	(151,954)
Tangible stockholders' equity	$ 541,124	517,175	407,037
Stockholders' equity to total assets	12.23%	12.19%	10.81%
Tangible stockholders' equity to total tangible assets	9.75%	9.59%	8.11%
Book value per common share	$ 11.35	11.04	10.29
Tangible book value per common share	$ 8.80	8.43	7.49
Market price per share at end of quarter	$ 14.94	19.02	24.77

Total stockholders' equity and book value per share amounts have increased $139 million and $1.06 per share, respectively, from September 30, 2008, the result of earnings retention and exercised stock options, increase in accumulated comprehensive gains, stock issued in connection with the Bank of the San Juans acquisition, and $94 million in net proceeds from the Company's November 2008 equity offering of 6,325,000 shares of common stock at a price of $15.50 per share. Tangible stockholders' equity has increased $134 million, or 33 percent since September 30, 2008, with tangible stockholders' equity at 9.75 percent of total tangible assets at September 30, 2009, up from 8.11 percent at September 30, 2008. Accumulated other comprehensive income (loss), representing net unrealized gains or losses (net of tax) on investment securities designated as available for sale, increased $21 million from September 30, 2008.

On September 30, 2009, the board of directors declared a cash dividend of $.13 per share, payable October 15, 2009 to shareholders of record on October 6, 2009. Future cash dividends will depend on a variety of factors including net income, capital, asset quality and general economic conditions.

Recent Acquisition

On October 2, 2009, the Company completed the acquisition of First Company and its subsidiary First National Bank & Trust, a community bank based in Powell, Wyoming. First National Bank & Trust provides community banking services from three branch locations in Powell, Cody, and Lovell, Wyoming. As of the acquisition, First National Bank & Trust had total assets of approximately $267 million. First National Bank & Trust will operate as a separate wholly-owned subsidiary of the Company.

Effect of inflation and changing prices

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

Lending Commitments

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

Liquidity Risk

Liquidity risk is the possibility that the Company will not be able to fund present and future obligations. The objective of liquidity management is to maintain cash flows adequate to meet current and future needs for credit demand, deposit withdrawals, maturing liabilities and corporate operating expenses. The principal source of the Company's cash revenues are dividends received from the Company's bank subsidiaries. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends which would constitute an unsafe or unsound banking practice. The bank subsidiaries' source of funds is generated by deposits, principal and interest payments on loans, sale of loans and securities, short and long-term borrowings, and net earnings. In addition, all of the bank subsidiaries are members of the FHLB. As of September 30, 2009, the bank subsidiaries had $757 million of available FHLB credit of which $641 million was utilized. The bank subsidiaries may also borrow funds from the FRB discount window or from the U.S. Treasury Tax and Loan program of which the banks have remaining borrowing availability of $737 million and $10 million, respectively. Management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each bank subsidiary as well as the Company as a whole.

Capital Resources and Adequacy

Maintaining capital strength has been a long term objective. Ample capital is necessary to sustain growth, provide protection against unanticipated declines in asset values, and to safeguard the funds of depositors. Capital also is a source of funds for loan demand and enables the Company to effectively manage its assets and liabilities. Shareholders' equity increased $139 million since prior year, or 25 percent, the net result of earnings, a public offering of stock of $94 million, common stock issued for the acquisition of San Juans,

stock options exercised, less cash dividend payments and a increase of $21 million resulting from the net unrealized gains on available-for-sale investment securities. The FRB has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in supervising a bank holding company.

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

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

Management considers whether an investment security is other-than-temporarily impaired under the guidance promulgated in FASB ASC Topic 320, Investments - Debt and Equity Securities. The Company adopted the standard relating to the recognition and presentation of other-than-temporary impairments effective for the interim period ending June 30, 2009 and determined there was not a material effect on the Company's financial position or results of operations. For further information regarding the new standards, see discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Recently Issued Standards".

The Company believes that macroeconomic conditions occurring in 2008 and the first nine months of 2009 have unfavorably impacted the fair value of certain debt securities in its investment portfolio. For debt securities with limited or inactive markets, the impact of these macroeconomic conditions upon fair value estimates includes higher risk-adjusted discount rates and downgrades in credit ratings provided by nationally recognized credit rating agencies, (e.g., Moody's, S&P, and Fitch).

In evaluating equity securities for other-than-temporary impairment losses, management assesses the Company's ability and intent to retain the equity securities for a period of time sufficient to allow for anticipated recovery in fair value. Equity securities owned at September 30, 2009 consisted of stock issued by the Federal Home Loan Bank and the Federal Reserve Bank, such shares measured at cost for fair value purposes in recognition of the transferability restrictions imposed by the issuers. In addition, the Company owns 150,000 shares of Series O preferred stock issued by Federal Home Loan Mortgage Corporation ("Freddie Mac") and 1,200 shares of common stock issued by the Federal National Mortgage Association ("Fannie Mae"). The Freddie Mac and Fannie Mae stock had a cost basis of $0 at year end due to the recognition of an other-than-temporary impairment charge against earnings at September 30, 2008 for the entire amount of the Company's investment therein. Hence, none of the equity securities were impaired as of September 30, 2009.

In evaluating debt securities for other-than-temporary impairment losses, management assesses whether the Company intends to sell or if it is more likely-than-not that it will be required to sell impaired debt securities. In so doing, management considers contractual constraints, liquidity, capital, asset / liability management and securities portfolio objectives. With respect to its impaired debt securities at September 30, 2009, management determined that it

does not intend to sell and that there is no expected requirement to sell any of its impaired debt securities.

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

As of September 30, 2009, there were 75 investments in an unrealized loss position and were considered to be temporarily impaired and therefore an impairment charge has not been recorded. All of such temporarily impaired investments are debt securities. Residential Mortgage-backed securities have the largest unrealized loss. The fair value of these securities, which have underlying collateral consisting of U.S. government sponsored enterprise guaranteed mortgages and non-guaranteed private label whole loan mortgages, were $130,121,000 at September 30, 2009 of which $75,739,000 was purchased during 2009, the remainder of which had a fair market value of $71,120,000 at December 31, 2008. For the securities purchased in 2009 there has been an unrealized loss of $352,000 since purchase. Of the remaining Residential Mortgage-backed securities in a loss position the unrealized loss increased from 8.6 percent of fair value at December 31, 2008 to 18.2 percent of fair value at September 30, 2009. The fair value of Collateralized Debt Obligation ("CDO") securities in an unrealized loss position is $4,600,000 with unrealized losses of $8,466,000 or 184 percent of fair value at September 30, 2009; such investments had an unrealized gain position at December 31, 2008. The fair value of State and Local Government were $30,905,000 at September 30, 2009 of which $902,000 was purchased during 2009, the remainder of which had a fair market value of $27,448,000 at December 31, 2008. For the securities purchased in 2009 there has been an unrealized loss of $22,000 since purchase. Of the remaining State and Local Government securities in a loss position the unrealized loss decreased from 15.5 percent of fair value at December 31, 2008 to 4.7 percent of fair value at September 30, 2009.

With respect to the CDO securities, the fair value decline is attributable to a single CDO structure that is a pooled trust preferred security of which the Company owns a portion of only the Senior Note tranche. All of the assets underlying the CDO structure are capital securities issued by trust subsidiaries of holding companies of banks and thrifts. As of September 30, 2009, the Senior Note is rated "A3" by Moody's and is rated "A" by Fitch, and 3 of the 26 trust subsidiaries have elected to defer the interest on their respective obligations underlying the CDO structure. In accordance with the prospectus for the CDO structure, the priority of payments favors holders of the Senior Notes over holders of the Mezzanine Notes and Income Notes. Though the maturity of the CDO structure is June 15, 2031, 12.69% of the outstanding principle of the Senior Notes has been prepaid. Further, the Senior Principle and Senior Interest Coverage tests performed by the Trustee (Bank of New York Mellon) have exceeded the threshold levels for the quarter ending September 30, 2009 and the prior quarters of 2009 and 2008. Moreover, in its assessment of the Senior Note for potential "other than temporary" impairment, the Company evaluated the underlying issuers and engaged a third party vendor to stress test the performance of the underlying capital securities and related obligors. Such stress testing has been performed as of September 30, 2009 and as of the end of each of the prior three quarters, i.e., June 30 and March 31, 2009 and December

31, 2008. In each instance of stress testing, the results reflect no credit loss for the Senior Note. In evaluating such results, the Company reviewed with the third party vendor the stress test assumptions and concurred with the analyses in concluding that the impairment at September 30, 2009 and prior quarters of 2009 was temporary, and not "other-than-temporary."

The Company stratified the 75 debt securities for both severity and duration of impairment. With respect to severity, 29 debt securities had impairment that exceeded 5 percent of the respective book values, of which 14 had impairment that exceeded 15 percent of the respective book values at September 30, 2009. 6 of the 75 debt securities had impairment that exceeded 40 percent of the respective book values at September 30, 2009. The remaining 46 debt securities had impairment that was 5 percent or less of the respective book values as of September 30, 2009.

With respect to the duration of the impaired securities, the Company identified 43 securities which have been continuously impaired for the 12 months ending September 30, 2009. The valuation history of such securities in the prior year(s) was also reviewed to determine the number of months in prior year(s) in which the identified securities was in an unrealized loss position. 13 of these 43 securities are non-guaranteed, non-Agency CMOs with an aggregate unrealized loss of $9,780,000, the most notable of which had an unrealized loss of $1,992,000. 21 of the 43 securities are state and local tax-exempt securities with an unrealized loss of $922,000, the most notable of which had an unrealized loss of $255,000. 7 of the 43 securities are mortgage-backed securities issued by U.S. government sponsored agencies, i.e., GNMA, FNMA, FHLMC and SBA, the aggregate unrealized loss of which was $6,000.

Included in the 75 debt securities with impairment at September 30, 2009 are 13 non-guaranteed, non-Agency issued CMOs tranches. 6 of the 13 CMOs tranches are collateralized by 30 year fixed residential mortgages considered to be "Prime," and 7 are collateralized by 30 year fixed residential mortgages considered to be "ALT - A." Moreover, none of the underlying mortgage collateral is considered "subprime".

For impaired debt securities for which there was no intent or expected requirement to sell, management considers available evidence to assess whether it is more likely-than-not that all amounts due would not be collected In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligors, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. Based on the analysis of its impaired securities as of September 30, 2009, the Company determined that none of such securities had other-than-temporary impairment.

Fair Value Measurements

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

In April 2009, FASB issued an amendment to ASC Topic 820, Fair Value Measurements and Disclosures, relating to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The Company adopted the standard effective for the interim period ending June 30, 2009 and determined there was not a material effect on the Company's financial position or results of operations. For further information regarding the new standard, see discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Recently Issued Standards."

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

In performing due diligence reviews of the independent asset pricing services and models for investment securities, the Company reviewed the vendors' inputs for fair value estimates and the recommended assignments of levels within the fair value hierarchy. The Company's review included the extent to which markets for investment securities were determined to have limited or no activity, or was judged to be an active market. The Company reviewed the extent to which observable and unobservable inputs were used as well as the appropriateness of the underlying assumptions about risk that a market participant would use in active markets, with adjustments for limited or inactive markets. In considering the inputs to the fair value estimates, the Company placed less reliance on quotes that were judged to not reflect orderly transactions, or were non-binding indications. The Company made independent inquires of other knowledgeable parties in testing the reliability of the inputs, including consideration for illiquidity, credit risk, and cash flow estimates. In assessing credit risk, the Company reviewed payment performance, collateral adequacy, credit rating histories, and issuers' financial statements with follow-up discussion with issuers. For those markets determined to be inactive, the valuation techniques used were models for which management verified that discount rates were appropriately adjusted to reflect illiquidity and credit risk. The Company independently obtained cash flow estimates that were stressed at levels that exceeded those used by independent third party pricing vendors. Based on the Company's due diligence review, investment securities are placed in the appropriate hierarchy levels with adjustment to vendors' recommendations made as necessary. Most notably, the Company determined that its collateralized debt obligation securities, i.e., trust preferred securities, were illiquid due to inactive markets (i.e., due to the absence of trade volume during 2008 and the first nine months of 2009), the fair values of which had significant reliance on unobservable inputs, and therefore were classified as Level 3 within the hierarchy.

On a non-recurring basis, the Company measures real estate and other assets owned and impaired loans at fair value. Real estate and other assets owned is carried at the lower of cost or estimated fair value, less estimated cost to sell. Estimated fair value of real estate and other assets owned is based on appraisals. The Company reviews the appraisals, giving consideration to the highest and best use of the collateral. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell. Real estate and other assets owned are classified within Level 3 of the fair value hierarchy. Allowable methods for estimating fair value of impaired loans include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method. Impaired loans are primarily collateral-dependent and the estimated fair value is based on the appraised fair value of the collateral, less estimated cost to sell. The Company reviews the appraisals, giving consideration to the highest and best use of the collateral. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell. Impaired loans are classified within Level 3 of the fair value hierarchy.

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

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

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

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

The fair value of FRB discount window borrowings is estimated based on borrowing rates currently available to the Company for FRB discount window borrowings with similar terms and maturities. The current outstanding borrowings are short term and current rates offered by FRB equal the rates on the outstanding borrowings, resulting in the estimated fair value being the same as the book value.

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

The fair value of the subordinated debentures is estimated by discounting the

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

For additional information on fair value measurements see Part I, Item 2 "Financial Statements - Note 13, Fair Value Measurements."

43

Impact of Recently Issued Accounting Standards

In August 2009, FASB issued a standard that will amend FASB ASC Subtopic 820-10, Fair Value Measurements and Disclosures - Overall, for the fair value measurement of liabilities. The Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting unit is required to measure fair value using one or more of the following techniques: 1) A valuation technique that uses a) the quoted price of the identical liability when trades as an asset b) quoted prices for similar liabilities or similar liabilities when traded as assets 2) Another valuation technique that is consistent with the principals FASB ASC Topic 820, Fair Value Measurements and Disclosures. The Update is effective for the first reporting period (including interim periods) beginning after issuance. The Company adopted the standard effective for the period ending September 30, 2009 and determined there was not a material effect on the Company's financial position or results of operations.

In June 2009, FASB issued a standard that will amend FASB ASC Topic 105, Generally Accepted Accounting Principles, the objective of which is to establish the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This Statement is effective for the Company's financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the standard effective for the period ending September 30, 2009 and determined there was not a material effect on the Company's financial position or results of operations.

In June 2009, FASB issued a standard that will amend FASB ASC Topic 810, Consolidation. The objective of this standard is to amend certain requirements to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This standard shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company's financial position or results of operations.

In June 2009, FASB issued a standard that will amend FASB ASC Topic 860, Transfers and Servicing. The objective of this standard is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. This standard shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting

period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company's financial position or results of operations.

In April 2009, FASB issued an amendment to FASB ASC Topic 320, Investments - Debt and Equity Securities relating to the recognition and presentation of other-than-temporary impairments. The objective of an other-than-temporary impairment analysis under existing U.S. generally accepted accounting principles ("GAAP") is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. This standard amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This standard does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The standard is effective for interim and annual reporting periods ending after

June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted the standard effective for the interim period ending June 30, 2009 and determined there was not a material effect on the Company's financial position or results of operations.

In April 2009, FASB issued an amendment to FASB ASC Topic 820, Fair Value Measurements and Disclosures which provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This standard also includes guidance on identifying circumstances that indicate a transaction is not orderly. This standard emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This standard is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption was permitted for periods ending after March 15, 2009. The Company adopted the standard effective for the interim period ending June 30, 2009 and determined there was not a material effect on the Company's financial position or results of operations.

In April 2009, FASB issued and amendment to FASB ASC Topic 825, Financial Instruments which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. An entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position. Fair value information disclosed in the notes shall be presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the statement of financial position. An entity also shall disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments and shall

describe changes in method(s) and significant assumptions, if any, during the period. This standard shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted the standard effective for the interim period ending June 30, 2009 and determined there was not a material effect on the Company's financial position or results of operations. For additional information on disclosures about fair value of financial instruments see Part I, Item 2 "Financial Statements - Note 13, Fair Value Measurements".

In December 2007, FASB issued new standards relating to business combinations and included in FASB ASC Topic 805, Business Combinations. The objective of this standard is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The Statement establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company's financial position or results of operations with any future business combinations.

Forward Looking Statements

This Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about management's plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "should," "projects,"

"seeks," "estimates" or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations in the forward-looking statements, including those set forth in this Form 10-Q:

- the risks associated with lending and potential adverse changes in credit quality;

- increased loan delinquency rates;

- the risks presented by a continued economic slowdown, which could adversely affect credit quality, loan collateral values, other real estate owned values, investment values, liquidity levels, and loan originations;

- changes in market interest rates, which could adversely affect our net interest income and profitability;

- legislative or regulatory changes that adversely affect our business or our ability to complete pending or prospective future acquisitions;

- costs or difficulties related to the integration of acquisitions;

- reduced demand for banking products and services;

- the risks presented by public stock market volatility, which could adversely affect the Company's stock value and the ability to raise capital in the future;

- competition from other financial services companies in our markets;

- loss of services from the senior management team; and

- the Company's success in managing risks involved in the foregoing.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company believes that there have not been any material changes in information about the Company's market risk than was provided in the Form 10-K report for the year ended December 31, 2008.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter 2009, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

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

A further economic downturn in the market areas the Company serves may continue to adversely impact earnings and could increase credit risk associated with the loan portfolio.

The inability of borrowers to repay loans can erode earnings. The effects of the national economic downturn are significantly impacting the market areas the Company serves. A further deterioration in the market areas the Company serves could result in the following consequences, any of which could have an adverse impact, which could be material, on the Company's business, financial condition, results of operations and prospects:

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

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

The Company maintains an ALLL in an amount that it believes is adequate to provide for losses inherent in the portfolio. While the Company strives to carefully manage and monitor credit quality and to identify loans that may become nonperforming, at any time there are loans included in the portfolio that will result in losses, but that have not been identified as nonperforming or potential problem loans. By closely monitoring credit quality, the Company attempts to identify deteriorating loans before they become nonperforming assets and adjust the ALLL accordingly. However, because future events are uncertain, and if the economy continues to deteriorate, there may be loans that deteriorate to a nonperforming status in an accelerated time frame. As a result, future additions to the ALLL may be necessary. Because the loan portfolio contains a number of loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming loans, requiring an increase to the ALLL. Additionally, future significant additions to the ALLL may be required based on changes in the mix of loans comprising the

portfolio, changes in the financial condition of borrowers, such as may result from changes in economic conditions, or as a result of incorrect assumptions by management in determining the ALLL. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review the Company's loan portfolio and the adequacy of the ALLL. These regulatory agencies may require the Company to recognize further loan loss provisions or

charge-offs based upon their judgments, which may be different from the Company's judgments. Any increase in the ALLL could have a negative effect on the Company's financial condition and results of operations.

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

The Company has a concentration of loans secured by real estate. Further downturn in the market areas the Company serves may cause the Company to have lower earnings and could increase credit risk associated with the loan portfolio, as the collateral securing those loans may decrease in value. A continued 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 Company's ability to sell or dispose of the underlying real estate collateral is adversely impacted by declining real estate values, which increases the likelihood that the Company will suffer losses on defaulted loans secured by real estate. This increased likelihood of loss in the event of default would adversely affect the Company's financial condition and results of operations, perhaps materially.

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

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

The FDIC has increased insurance premiums to rebuild and maintain the federal deposit insurance fund which has increased the Company's costs and could adversely affect its business.

The FDIC adopted a final rule revising its risk-based assessment system, effective April 1, 2009. The changes to the assessment system involve adjustments to the risk-based calculation of an institution's unsecured debt, secured liabilities and brokered deposits. The potential increase in FDIC insurance premiums could have a significant impact on the Company.

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

The FDIC has recently proposed requiring insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 and for 2010, 2011 and 2012, and to increase the regular assessment rate by three basis points effective January 1, 2011, as a means of replenishing the deposit insurance fund. The prepayment would be collected on December 30, 2009, and would be accounted for as a prepaid expense amortized over the prepayment period. Although the FDIC could exempt institutions from the prepayment requirement when prepayment would impact the institution's safety and soundness, the FDIC has stated it expects few exemptions to be granted, and the Company would not expect to apply for an exemption. If the proposed rule becomes final, the prepayment of premiums could have an adverse impact on the Company's liquidity.

The FDIC deposit insurance fund may suffer additional losses in the future due to bank failures. There can be no assurance that there will not be additional significant deposit insurance premium increases or special assessments in order to restore the insurance fund's reserve ratio

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

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

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition.

Nonperforming assets (which include foreclosed real estate) adversely affect the Company's net income in various ways. Until economic and market conditions improve, the Company expects to continue to incur additional losses relating to an increase in nonperforming loans. The Company does not record interest income on non-accrual loans or other real estate owned, thereby adversely affecting its income, and increasing loan administration costs. When the Company takes collateral in foreclosures and similar proceedings, it is required to mark the related asset to the then fair market value of the collateral less cost to sell, which may result in a loss. An increase in the level of nonperforming assets also increases the Company's risk profile and may impact the capital levels its regulators believe is appropriate in light of such risks. While the Company has reduced its problem assets through, workouts, restructurings and otherwise, decreases in the value of these assets, or the underlying collateral, or in these borrowers' performance or financial conditions, whether or not due to economic and market conditions beyond the Company's control, could adversely affect the Company's business, results of operations and financial condition. In addition to the carrying costs to maintain other real estate owned, the resolution of nonperforming assets requires significant commitments of time from management and the Company's directors, which can be detrimental to performance

of their other responsibilities. There can be no assurance that the Company will not experience further increases in nonperforming assets in the future.

The Company's ability to access markets for funding and acquire and retain customers could be adversely affected by the deterioration of other financial institutions or to the extent the financial service industry's reputation is damaged.

Reputation risk is the risk to liquidity, earnings and capital arising from negative publicity regarding the financial services industry. The financial services industry continues to be featured in negative headlines about the global and national credit crisis and the resulting stabilization legislation enacted by the U.S. federal government. These reports can be damaging to the industry's image and potentially erode consumer confidence in insured financial institutions, such as the Company's bank subsidiaries.

Decline in the fair value of the Company's investment portfolio could adversely affect earnings

The fair value of the Company's investment securities could decline as a result of factors including changes in market interest rates, credit quality and ratings, lack of market liquidity and other economic conditions. Investment securities are impaired if the fair value of the security is less than the carrying value. When a security is impaired, the Company determines whether impairment is temporary or other-than-temporary. The Company adopted FASB ASC Topic 320, Investments - Debt and Equity Securities relating to the recognition and presentation of other-than-temporary impairments, effective for the interim period ended June 30, 2009, and accordingly if an impairment is determined to be other-than temporary, an impairment loss is recognized by reducing the amortized cost only for the credit loss associated with an other-than-temporary loss with a corresponding charge to earnings

for a like amount. For further information regarding the standard see discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Recently Issued Standards".

Fluctuating interest rates can adversely affect profitability.

The Company's profitability is dependent to a large extent upon net interest income, which is the difference (or "spread") between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the Company's interest rate spread, and, in turn, profitability. The Company seeks to manage its interest rate risk within well established guidelines. Generally, the Company seeks an asset and liability structure that insulates net interest income from large deviations attributable to changes in market rates. However, the Company's structures and practices to manage interest rate risk may not be effective in a highly volatile rate environment.

If the goodwill recorded in connection with acquisitions becomes impaired, it could have an adverse impact on earnings and capital.

Accounting standards require that the Company account for acquisitions using the purchase method of accounting. Under acquisition accounting, if the purchase

price of an acquired company exceeds the fair value of its net assets, the excess is carried on the acquiror's balance sheet as goodwill. In accordance with generally accepted accounting principles, goodwill is not amortized but rather is evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. Although at the current time the Company has not incurred an impairment of goodwill, there can be no assurance that future evaluations of goodwill will not result in findings of impairment and write-downs, which could be material.

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

The Company has in recent years acquired other financial institutions. The Company may in the future engage in selected acquisitions of additional financial institutions, including transactions that may receive assistance from the FDIC. There are risks associated with any such acquisitions that could adversely affect profitability. These risks include, among other things, incorrectly assessing the asset quality of a financial institution being acquired, encountering greater than anticipated cost of incorporating acquired businesses into the Company's operations, and being unable to profitably deploy funds acquired in an acquisition.

The Company anticipates that it might issue capital stock in connection with future acquisitions. Acquisitions and related issuances of stock may have a dilutive effect on earnings per share and the percentage ownership of current shareholders. The Company currently does not have any definitive understandings or agreements for any acquisitions other than the recent acquisition of First Company and its subsidiary First National Bank & Trust, a community bank based in Powell, Wyoming. For additional information on the acquisition see Part I, Item 2 "Financial Statements - Note 16, Subsequent Events."

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

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

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

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

If the Company is unable to effectively compete in its market areas, the Company's business, results of operations and prospects could be adversely affected.

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

The Company is subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or

federal, state or local legislation could have a substantial impact on the Company and its operations. Additional legislation and regulations that could significantly affect the Company's powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on the Company's financial condition and results of operations. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. Recently these powers have been utilized more frequently due to the serious national, regional and local economic conditions the Company is facing. The exercise of regulatory authority may have a negative impact on the Company's financial condition and results of operations.

On October 3, 2008, Congress enacted the Emergency Economic Stabilization Act of 2008 ("EESA"), which provides the United States Treasury Department ("Treasury") with broad authority to implement action intended to help restore stability and liquidity to the U.S. financial markets. The EESA also increased the amount of deposit account insurance coverage from $100,000 to $250,000 effective until December 31, 2009, which was recently extended to December 31, 2013 under the Helping Families Save Their Homes Act of 2009.

In early 2009, the Treasury also announced the Financial Stability Plan which, among other things, provides a new capital program called the Capital Assistance Program, which establishes a public-private investment fund for the purchase of troubled assets, and expands the Term Asset-Backed Securities Loan Facility. The full effect of this broad legislation on the national economy and financial institutions, particularly on mid-sized institutions like the Company, cannot now be predicted. In addition, the American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law on February 17, 2009, and includes, among other things, extensive new restrictions on the compensation and governance arrangements of financial institutions participating in the Treasury's Troubled Asset Relief Program. The SEC recently has proposed expanding some of the reforms in ARRA to apply to all public companies. Other recent proposals include the Secretary of the Treasury's June 17, 2009 proposal to fundamentally change the regulation of financial institutions, markets and products, and the Federal Reserve's proposed guidance issued on October 22, 2009 regarding incentive compensation practices at institutions it regulates, including the Company.

In summary, numerous actions have been taken by the Federal Reserve, the U.S. Congress, the Treasury, the FDIC, the SEC and others to address the liquidity and credit crisis. The Company cannot predict the actual effects of EESA, the ARRA, the proposed regulatory reform measures and various governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets, on the Company and its subsidiaries. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions could materially and adversely affect the Company's business, financial condition, results of operations, and the trading price of common stock.

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

(a) Not Applicable

(b) Not Applicable

(c) Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) Not Applicable

(b) Not Applicable

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

(a) None

(b) Not Applicable

(c) None

(d) None

ITEM 5. OTHER INFORMATION

(a) Not Applicable

(b) Not Applicable

ITEM 6. EXHIBITS

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

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

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

SIGNATURES

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

GLACIER BANCORP, INC.

November 6, 2009

/s/ Michael J. Blodnick

Michael J. Blodnick
President/CEO

November 6, 2009

/s/ Ron J. Copher

Ron J. Copher
Senior Vice President/CFO