## GLACIER BANCORP INC

## Form 10-Q

August 08, 2008

|  | UNITED STATES |
| :---: | :---: |
|  | SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 |
|  | FORM 10-Q |
| [X] | Quarterly report pursuant to section 13 or $15(\mathrm{~d})$ of the Securities Exchange Act of 1934 |
|  | For the quarterly period ended June 30, 2008 |
| [ ] | Transition report pursuant to section 13 or $15(\mathrm{~d})$ of the Securities Exchange Act of 1934 |
|  | For the transition period from __ to .__ |
|  | COMMISSION FILE 0-18911 |
|  | GLACIER BANCORP, INC. <br> (Exact name of registrant as specified in its charter) |


(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 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 $12 \mathrm{~b}-2$ of the Exchange Act. (Check one):

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

The number of shares of Registrant's common stock outstanding on July 21,2008 was 53,992,982. No preferred shares are issued or outstanding.

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

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GLACIER BANCORP, INC. CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

## (Dollars in thousands, except per share data)

## ASSETS:

Cash on hand and in banks ......................................... \$ 123,545
Federal funds sold 135
Interest bearing cash deposits
26,654

Cash and cash equivalents
150,334

Investment securities
773,417
Loans receivable, net 3,717,373
Loans held for sale
42,772
Premises and equipment, net 125,398

Accrued interest receivable ................................
Deferred tax asset
6,523
28,128
3,624
Core deposit intangible, net
Goodwill
12,416
......................................................
140,301
Other assets
27,582

Total assets
\$ 5,027,868
============

LIABILITIES AND STOCKHOLDERS' EQUITY:
Non-interest bearing deposits
Interest bearing deposits
\$ $\quad 778,786$
Advances from Fin ....
Bank of seattl
2,347,137

Securities sold under agreements to repurchase
658, 211

Other borrowed funds
176, 211

Accrued interest payable
355,437

Deferred tax liability
11,922

Subordinated debentures
118,559
Other liabilities
Total liabilities
31,962
4,478,225

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 540
Paid-in capital
380,161
 171,017
Accumulated other comprehensive (loss) income
$(2,075)$

Total stockholders' equity
549,643

Total liabilities and stockholders' equity
$\$ \quad 5,027,868$


See accompanying notes to condensed consolidated financial statements.

NON-INTEREST EXPENSE:
Compensation, employee benefits and

| related expense |  | 20,967 | 20,594 |
| :---: | :---: | :---: | :---: |
| Occupancy and equipment expense |  | 5,116 | 4,812 |
| Advertising and promotions expense |  | 1,833 | 1,581 |
| Outsourced data processing expense |  | 647 | 680 |
| Core deposit intangibles amortization |  | 767 | 809 |
| Other expense |  | 7,113 | 6,598 |
| Total non-interest expense |  | 36,443 | 35,074 |
| EARNINGS BEFORE INCOME TAXES |  | 28,196 | 25,323 |
| Federal and state income tax expense |  | 9,737 | 8,598 |
| NET EARNINGS | \$ | 18,459 | 16,725 |
| Basic earnings per share | \$ | 0.35 | 0.31 |
| Diluted earnings per share | \$ | 0.34 | 0.31 |
| Dividends declared per share | \$ | 0.13 | 0.12 |
| Return on average assets (annualized) |  | 1.51\% | 1.47\% |
| Return on average equity (annualized) |  | 13.51\% | 13.79\% |
| Average outstanding shares - basic |  | 971,220 | 53,164,813 |
| Average outstanding shares - diluted |  | 151,290 | 53,601,696 |

See accompanying notes to condensed consolidated financial statements.

GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2007 AND UNAUDITED SIX MONTHS ENDED JUNE 30, 2008

|  | Common Stock |  |  | Paid-in |
| :---: | :---: | :---: | :---: | :---: |
| (Dollars in thousands, except per share data) | Shares | Amount |  |  |
| Balance at December 31, 2006 | 52,302,820 | \$ | 523 | 344,265 |
| Comprehensive income: |  |  |  |  |
| Net earnings | -- |  | -- | -- |
| Unrealized gain on securities, net of reclassification adjustment and taxes | -- |  | -- | -- |
| Total comprehensive income |  |  |  |  |
| Cash dividends declared (\$.50 per share) | -- |  | -- | -- |
| Stock options exercised | 550,080 |  | 6 | 6,148 |
| Stock issued in connection with acquisition | 793,580 |  | 7 | 18,993 |
| Stock based compensation and tax benefit | -- |  | -- | 5,322 |
| Balance at December 31, 2007 | 53,646,480 | \$ | 536 | 374,728 |

Retaine earning substanti
$\qquad$

108

68
(26

150

NET CASH USED IN FINANCING ACTIVITIES ..... 180,643
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS . . . . (77,275) 97,93
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD . . . . . . . . . . 227,609 173,01

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Cash paid during the period for: Interest ........ 51,020
NORTH SIDE

STATE BANK $\quad$| April 30,2007 |  |
| ---: | ---: |
| Acquired |  |
| Fair Value of assets acquired |  |
| Cash paid for the capital stock | 127,258 |
| Capital stock issued | 8,854 |
| Liabilities assumed | 19,000 |
|  | 99,967 |

$=======$
Income taxes ...... $\$ 22,265$

See accompanying notes to condensed consolidated financial statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Glacier Bancorp Inc.'s (the "Company") financial condition as of June 30, 2008 and 2007, stockholders' equity for the six months ended June 30, 2008, the results of operations for the three and six months ended June 30, 2008 and 2007, and cash flows for the six months ended June 30, 2008 and 2007. The condensed consolidated statement of financial condition and statement of stockholders' equity and comprehensive income of the Company as of December 31, 2007 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 $10-\mathrm{K}$ for the year ended December 31, 2007. Operating results for the six months ended June 30, 2008 are not necessarily indicative of the results anticipated for the year ending December 31, 2008. Certain
reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

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. As of June 30, 2008, 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 First National Bank of Morgan ("Morgan") located in Utah.

On April 30, 2008, Glacier Bank of Whitefish ("Whitefish") merged into Glacier with operations conducted under the Glacier charter. Prior period activity of Whitefish was combined and included in Glacier's historical results. The merger was accounted for as a combination of two wholly-owned subsidiaries without purchase accounting.

In addition, the Company owns four trust subsidiaries, Glacier Capital Trust II ("Glacier Trust II"), Glacier Capital Trust III ("Glacier Trust III"), Glacier Capital Trust IV ("Glacier Trust IV"), and Citizens (ID) Statutory Trust I ("Citizens Trust I") for the purpose of issuing trust preferred securities and, in accordance with Financial Accounting Standards Board ("FASB") Interpretation 46(R), 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 and total assets for the parent company and each of the community bank subsidiaries. Although the consolidated total assets of the Company was $\$ 5$ billion at June 30,2008 , eight of the ten community banks had total assets of less than $\$ 1$ billion. Morgan, the smallest community bank subsidiary had $\$ 99.5$ million in total
assets, while Glacier Bank, the largest community bank subsidiary, had $\$ 1.2$ billion in total assets at June 30, 2008.

The following abbreviated organizational chart illustrates the various relationships as of June 30, 2008:


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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 JUNE 30, 2008

| (Dollars in thousands) | Weighted Yield | Amortized Cost | Gross <br> Gains |
| :---: | :---: | :---: | :---: |
| AVAILABLE-FOR-SALE: |  |  |  |
| GOVERNMENT-SPONSORED ENTERPRISES: maturing within one year ...................................... | $3.27 \%$ | 400 | 1 |
| maturing one year through five years | $0.00 \%$ | -- | -- |
| maturing five years through ten years | 4.64\% | 262 | -- |
| maturing after ten years | 4.03\% | 81 | 1 |
|  | $3.84 \%$ | 743 | 2 |
| STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES: maturing within one year | 3.91\% | 1,383 | 3 |
| maturing one year through five years | 4.47\% | 4,287 | 49 |
| maturing five years through ten years. | 5.09\% | 15,858 | 752 |
| maturing after ten years | 5.09\% | 248,389 | 6,608 |
|  | $5.07 \%$ | 269,917 | 7,412 |
| MORTGAGE-BACKED SECURITIES | $4.82 \%$ | 438,118 | 773 |
| FHLMC AND FNMA STOCK | 5.73\% | 7,593 | -- |
| TOTAL MARKETABLE SECURITIES | 4.93\% | 716,371 | 8,187 |
| OTHER INVESTMENTS: |  |  |  |
| Certificates of Deposits with over 90 day maturity, at cost | 5.25\% | 99 | -- |

#  



Interest income includes tax-exempt interest for the six months ended June 30,2008 and 2007 of $\$ 6,348,000$ and $\$ 6,928,000$, respectively, and for the three months ended June 30,2008 and 2006 of $\$ 3,174,000$ and $\$ 3,476,000$,

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respectively.

Gross proceeds from sale of marketable securities for the six months ended June 30,2008 and 2007 were $\$ 97,002,000$ and $\$ 55,798,000$, respectively, resulting in gross gains of $\$ 0$ and $\$ 1,000$, respectively, and gross losses of $\$ 0$ and $\$ 9,000$, respectively. The gross proceeds and gross gains for the sale of other stock was $\$ 248,000$ and $\$ 0$ for the six months ended June 30 , 2008 and 2007, respectively. The Company realized a gain of $\$ 130,000$ from the 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. The cost of any investment sold is determined by specific identification.

The investments in the Federal Home Loan Bank ("FHLB") of Seattle stock are required investments related to the Company's borrowings from FHLB of Seattle. FHLB of Seattle obtains their 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.
4) Loans and Leases

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

> TYPE OF LOAN
> (Dollars in thousands)

|  | Amount | Percent |  | Amount | Percent |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | $\begin{array}{r} 706,815 \\ 42,772 \end{array}$ | $\begin{array}{r} 18.8 \% \\ 1.1 \% \end{array}$ | \$ | $\begin{array}{r} 689,238 \\ 40,123 \end{array}$ | $\begin{array}{r} 19.4 \% \\ 1.1 \% \end{array}$ |
|  | 749,587 | 19.9\% |  | 729,361 | 20.5\% |
|  | $\begin{array}{r} 1,736,784 \\ 664,558 \end{array}$ | $\begin{aligned} & 46.2 \% \\ & 17.7 \% \end{aligned}$ |  | $\begin{array}{r} 1,617,076 \\ 636,351 \end{array}$ | $\begin{aligned} & 45.4 \% \\ & 17.9 \% \end{aligned}$ |
|  | $2,401,342$ | $63.9 \%$ |  | 2,253,427 | $63.3 \%$ |
|  | $\begin{aligned} & 207,595 \\ & 471,398 \end{aligned}$ | $\begin{array}{r} 5.6 \% \\ 12.5 \% \end{array}$ |  | $\begin{aligned} & 206,724 \\ & 432,217 \end{aligned}$ | $\begin{array}{r} 5.8 \% \\ 12.2 \% \end{array}$ |
|  | 678,993 | 18.1\% |  | 638,941 | 18.0\% |
|  | $(8,970)$ | -0.3\% |  | $(10,194)$ | -0.3\% |
|  | $(60,807)$ | $-1.6 \%$ |  | $(54,413)$ | -1.5\% |
| \$ | 3,760,145 | 100.0\% | \$ | 3,557,122 | 100.0\% |

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

(Dollars in thousands)
Gross carrying value
Accumulated Amortization
Net carrying value
Intangible

12
liabilities assumed, including certain intangible assets. Goodwill is recorded for the residual amount in excess of the net fair value.

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

The following table illustrates the amounts outstanding for deposits $\$ 100,000$ and greater at June 30,2008 according to the time remaining to maturity. Included in the certificates of deposit ("CD") maturities are brokered CDs in the amount of $\$ 1,015,000$.

| Within three months | \$ | 120,148 | 1,303,609 |
| :---: | :---: | :---: | :---: |
| Three to six months |  | 85,336 | - |
| Seven to twelve months |  | 100,861 | - |
| Over twelve months |  | 47,338 | - |
| Totals | \$ | 353,683 | 1,303,609 |

The following chart illustrates the average balances and the maximum outstanding month-end balances for FHLB of Seattle advances, repurchase agreements and U.S. Treasury, Tax and Loan borrowings:

## (Dollars in thousands)

As of and
for the six
months ended
June 30,2008

As of and for the year ended December 31, 2007

FHLB advances:
Amount outstanding at end of period $\$ 658,211$ 538,949
Average balance
Maximum outstanding at any month-end
$\$ \quad 648,296$
382,243
\$ 815,860
538,949
$3.26 \%$
$4.94 \%$

Repurchase agreements:
Amount outstanding at end of period
Average balance
Maximum outstanding at any month-end
$\$ \quad 176,211$
178,041
\$ 184,892
\$ 192,216
171,290
193,421
$2.33 \%$
$4.35 \%$
U.S. Treasury, Tax and Loan:

Amount outstanding at end of period 221,409
Average balance
\$ 173,434 120,188

Maximum outstanding at any month-end
\$ 299,477
120,188

Weighted average interest rate
$2.74 \%$

The Federal Reserve Board has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. The following table illustrates the Federal Reserve Board's capital adequacy guidelines and the Company's compliance with those guidelines as of June $30,2008$.

## CONSOLIDATED <br> (Dollars in thousands)

Total stockholder's equity
Less: Goodwill and intangibles Other adjustments

Tier 1 (Core) Capital
\$ $\quad 549,643$
$(152,717)$
$(2,322)$

Tier 2 (To Capital

| Plus: Allowance for loan and lease losses |  |  |
| :---: | :---: | :---: |
| Accumulated other comprehensive |  |  |
| Unrealized loss on AFS securities |  | 2,075 |
| Subordinated debentures |  | 115,000 |
| Regulatory capital computed | \$ | 511,679 |
| Risk weighted assets | \$ | 4,172,360 |
| Total average assets |  |  |
| Capital as \% of risk weighted assets |  | $12.26 \%$ |
| Regulatory "well capitalized" requirement |  | $6.00 \%$ |
| Excess over "well capitalized" requirement |  | $6.26 \%$ |


9) Computation of Earnings Per Share

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

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

|  | Three <br> months ended June 30, 2008 |  | Three <br> months ended <br> June 30, 2007 | ```Six months ended June 30, 2008``` |
| :---: | :---: | :---: | :---: | :---: |
| Net earnings available to common stockholders | \$ | 18,459,000 | 16,725,000 | $35,858,000$ |
| Average outstanding shares - basic |  | 53,971,220 | 53,164,813 | 53,910,414 |
| Add: Dilutive stock options |  | 180,070 | 436,883 | 173,779 |
| Average outstanding shares - diluted |  | 54,151,290 | 53,601,696 | 54,084,193 |
| Basic earnings per share | \$ | 0.35 | 0.31 | 0.67 |
| Diluted earnings per share | \$ | 0.34 | 0.31 | 0.66 |

There were approximately $1,567,573$ and 436,130 average shares excluded from the diluted average outstanding share calculation for the six months ended June 30,2008 and 2007, respectively, due to the option exercise price exceeding the market price.
10) Comprehensive Income

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


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The Company defines operating segments and evaluates segment performance internally based on individual bank charters. The following schedule provides selected financial data for the Company's operating segments. Centrally provided services to the banks are allocated based on estimated usage of those services. The operating segment identified as "Other" includes limited partnership interests that operate residential rental real estate properties which have been allocated low income housing tax credits. 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.


Six months ended and as of Jun

|  | Mountain | First |  |
| :---: | :---: | :---: | :---: |
| Glacier | West | Security | Western |

Revenues from external customers
Intersegment revenues Expenses

路

Net Earnings

Total Assets
\$
38,538
78
$(30,418)$
-----------188

| \$ | 8,198 |
| :---: | :---: |

\$ 1,030,238
------------
42,446
24
$(35,521)$

| 29,187 | 20,455 |
| :---: | :---: |
| 920 | 713 |
| $(23,497)$ | $(16,903)$ |
| 6,610 | 4,265 |
| 834,762 | 553,387 |


|  | Citizens |  | rst Bank <br> of MT | Morgan | Parent |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Revenues from external customers | \$ | 7,549 | 4,604 | 2,427 | 110 |
| Intersegment revenues |  | - | 316 | 632 | 41,190 |
| Expenses |  | $(6,461)$ | $(3,969)$ | $(2,602)$ | $(8,482)$ |
| Net Earnings | \$ | 1,088 | 951 | 457 | 32,818 |
| Total Assets | \$ | 181,250 | 143,093 | 91,560 | 634,276 |

(Dollars in thousands)

Revenues from external customers Intersegment revenues Expenses
Net Earnings
Total Assets
Revenues from external customers
Intersegment revenues Expenses
Net Earnings
Total Assets

| Glacier |  | Mountain West | First Security | Western |
| :---: | :---: | :---: | :---: | :---: |
| \$ | 21,121 | 21,846 | 13,681 | 9,255 |
|  | 41 | 25 | 469 | 259 |
|  | $(15,954)$ | $(18,809)$ | $(10,561)$ | $(7,418)$ |
| \$ | 5,208 | 3,062 | 3,589 | 2,096 |
| \$ | 1,156,216 | 1,114,885 | 847,406 | 567,473 |

First Bank
Citizens
$\square$ of MT


Other



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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

The following are the assets measured at fair value on a recurring basis at and for the period ended June 30, 2008.
(Dollars in thousands)
in active markets
for identical

The change in unrealized losses related to available-for-sale securities are reported in the accumulated other comprehensive income (loss).

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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)

INTEREST INCOME

| Residential real estate loans | \$ | $(2,409)$ | $(2,242)$ | $(4,651)$ |
| :---: | :---: | :---: | :---: | :---: |
| Commercial loans |  | 17,766 | $(8,955)$ | 8,811 |
| Consumer and other loans |  | 2,495 | $(1,782)$ | 713 |
| Investment securities and other |  | $(1,540)$ | 43 | $(1,497)$ |
| Total Interest Income |  | 16,312 | $(12,936)$ | 3,376 |
| INTEREST EXPENSE |  |  |  |  |
| NOW accounts |  | 45 | (788) | (743) |
| Savings accounts |  | 11 | (345) | (334) |
| Money market accounts |  | 1,104 | $(4,439)$ | $(3,335)$ |
| Certificates of deposit |  | $(2,770)$ | $(1,812)$ | $(4,582)$ |
| FHLB advances |  | 6,886 | $(5,439)$ | 1,447 |
| Other borrowings and repurchase agreements |  | 2,681 | $(4,400)$ | $(1,719)$ |
| Total Interest Expense |  | 7,957 | $(17,223)$ | $(9,266)$ |
| NET INTEREST INCOME | \$ | 8,355 | 4,287 | 12,642 |

NET INTEREST INCOME


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

AVERAGE BALANCE SHEET
(Dollars in thousands)

## ASSETS

Residential real estate loans
Commercial loans
Consumer and other loans

Total Loans
Tax - exempt investment securities (1)
Other investment securities

Total Earning Assets

Goodwill and core deposit intangible
Other non-earning assets

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' EQUITY
NOW accounts
Savings accounts
Money market accounts
Certificates of deposit
FHLB advances
Repurchase agreements
and other borrowed funds

Total Interest Bearing Liabilities

Non-interest bearing deposits
Other liabilities

Total Liabilities
Common stock
Paid-in capital
Retained earnings
Accumulated other
Comprehensive income

Total Stockholders' Equity

TOTAL LIABILITIES AND
STOCKHOLDERS' EQUITY

Net interest income

Net interest spread
Net Interest Margin
Net Interest Margin (Tax Equivalent)
Return on average assets (annualized)
Return on average equity (annualized)

For the Three months ended 6-30-08

|  | Interest | Average |
| :---: | :---: | :---: |
| Average | and | Yield/ |
| Balance | Dividends | Rate |


| $\$$ |
| ---: |
| $2,$728,127 <br> 351,722 <br> 659,960 |
| ----------- |
| $3,739,809$ |
| 255,227 |
| 537,735 |
| ----------- |
| $4,532,771$ |
|  |

914,957
\$ $\quad 467,852$
272,94
763, 83
854, 667
701,324

521,139
$-----------\quad 1$
3,581,761

735,953
47,641
--------------
4, 365,355
540
379,265
166,307

3,490


549,602
\$ 4,914,957

## ------------

$\square$ \$ 52,300

For the
------

Average Balance
-------
$0.60 \%$
$0.66 \%$
$2.05 \%$
3.95\%
$2.76 \%$
$3.06 \%$
$2.49 \%$
\$ 723,
2,313, 649 ,

3, 686,
257
530,
4, 474,

153,
234,
$\$ 4,862$
\$ 465,
270
781,
857,
648 ,

512,
3,536

735

4, 317,

377,
161,

[^0]respectively.

Change in Accounting Principle

In September 2006, FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") for Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangement. Effective for fiscal years beginning after December 15,2007 , the EITF requires policy holders of split dollar life insurance arrangements to recognize a liability for future benefits to the employee with the option to recognize the change in accounting principle through either a cumulative-effective adjustment to beginning retained earnings or through retrospective application to all periods.

The Company has split-dollar life insurance policies that required recording a liability for future benefits. The Company opted to recognize a cumulative-effect adjustment of $\$ 997,000$ to retained earnings as of January 1,2008 due to the impracticality of obtaining prior years information.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of SFAS No. 115. SFAS 159 allows companies to report selected financial assets and liabilities at fair value. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately in the balance sheet. While SFAS 159 is effective beginning January 1, 2008, the Company has not elected the fair value option that is offered by this statement.

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

RESULTS OF OPERATIONS - THE THREE MONTHS ENDED JUNE 30, 2008 COMPARED TO MARCH 31, 2008 AND JUNE 30, 2007

Performance Summary

The Company reported net earnings of $\$ 18.459$ million for the second quarter, an increase of $\$ 1.734$ million, or 10 percent, over the $\$ 16.725$ million for the second quarter of 2007. Diluted earnings per share of $\$ .34$ for the quarter is an increase of 10 percent over the diluted earnings per share of $\$ 31$ for the same quarter of 2007 . Annualized return on average assets and return on average equity for the second quarter were 1.51 percent and 13.51 percent, respectively, which compares with prior year returns for the second quarter of 1.47 percent and 13.79 percent, respectively. The increase in earnings is primarily due to an improvement in the net interest margin and a steady increase in loans as well as a $\$ 1$ million increase in non-interest income.

$n / m$ - not measurable

Net Interest Income

Net interest income for the quarter increased $\$ 4$ million, or 8 percent, from the prior quarter, and increased $\$ 7$ million, or 16 percent, over the same period in 2007. While total interest income has decreased by $\$ 1$ million, or 1 percent,
from the same period last year, total interest expense has decreased by $\$ 8$ million, or 26 percent, from the same period last year. 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 4.75 percent which is 21 basis points higher than the 4.54 percent achieved for the prior quarter and 24 basis points higher than the 4.51 percent result for the second quarter of 2007 .

Provision for Loan Losses

The Company recorded a provision for loan losses of $\$ 5.0$ million, an increase of $\$ 3.8$ million from the same quarter in 2007 . Such increase is primarily attributable to higher reserves for certain commercial real estate loans in Western Montana and Idaho, most notably in the Coeur d'Alene, Sandpoint and Boise markets, and the
increase in non-performing assets at June 30,2008 compared to June 30, 2007. Net charged-off loans during the three months ended June 30, 2008 was $\$ 915$ thousand.

The determination of the allowance for loan and lease losses ("ALLL") 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.

Non-interest Income

Non-interest income for the quarter increased $\$ 1$ million, or 7 percent, from the prior quarter, and also increased $\$ 1$ million, or 6 percent, over the same period in 2007. Fee income increased $\$ 1.3$ million, or 12 percent, during the quarter, compared to the $\$ 465$ million, or 4 percent, increase over the same period last year. The fee income increases are attributable to the continued growth in the number of checking accounts. Gain on sale of loans for the quarter increased $\$ 365$ thousand, or 9 percent, and increased $\$ 537$ thousand, or 14 percent, over the same period last year, such increases resulting from a greater volume of real estate and other loans sold. There were no sales of investments in the quarter, unlike the first quarter which included $\$ 248$ thousand in gain from the sale of shares in Principal Financial Group (PFG) and a mandatory redemption of a portion of Visa, Inc. shares from its initial public offering. For the quarter, other income decreased by $\$ 260$ thousand, or 22 percent, compared to a decrease of $\$ 32$ thousand, or 3 percent, over the same period last year.

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

| $\begin{aligned} & \text { June } 30 \text {, } \\ & 2008 \\ & \text { (unaudited) } \end{aligned}$ | $\begin{gathered} \text { March 31, } \\ 2008 \\ \text { (unaudited) } \end{gathered}$ | $\begin{gathered} \text { June } 30 \text {, } \\ 2007 \\ \text { (unaudited) } \end{gathered}$ |
| :---: | :---: | :---: |
| \$ 20,967 | \$ 21,097 | \$ 20,594 |
| 5,116 | 5,133 | 4,812 |


| Advertising and promotion expense |  | 1,833 |  | 1,539 |  | 1,582 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Outsourced data processing |  | 647 |  | 667 |  | 680 |
| Core deposit intangibles amortization |  | 767 |  | 779 |  | 809 |
| Other expenses |  | 7,113 |  | 6,398 |  | 6,597 |
| Total non-interest expense | \$ | 36,443 | \$ | 35,613 | \$ | 35,074 |


| Compensation and employee benefits | \$ | (130) | \$ | 373 | -1\% |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Occupancy and equipment expense |  | (17) |  | 304 | $0 \%$ |
| Advertising and promotion expense |  | 294 |  | 251 | 19\% |
| Outsourced data processing |  | (20) |  | (33) | -3\% |
| Core deposit intangibles amortization |  | (12) |  | (42) | -2\% |
| Other expenses |  | 715 |  | 516 | 11\% |
| Total non-interest expense | \$ | 830 | \$ | 1,369 | 2\% |

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## Non-interest Expense

Non-interest expense increased by $\$ 830$ thousand, or 2 percent, from the prior quarter and increased by $\$ 1.4$ million, or 4 percent, from the same quarter of 2007. Compensation and benefit expense decreased $\$ 130$ thousand, or 1 percent, over the prior quarter, and increased $\$ 373$ thousand, or 2 percent, over the same quarter of 2007. The year-over-year increase is primarily attributable to increased staffing levels, including new branches, as well as increased compensation, including commissions tied to increased production, and benefits, including health insurance. The number of full-time-equivalent employees has increased from 1,469 to 1,537, a 5 percent increase since June $30,2007$.

Occupancy and equipment expense increased $\$ 304$ thousand, or 6 percent, while other expenses increased $\$ 516$ thousand, or 8 percent, since June 30 , 2007, reflecting the cost of additional branch locations, facility upgrades, and other general and administrative costs. Advertising and promotion expense increased \$294 thousand, or 19 percent, from the prior quarter, and increased \$251 thousand, or 16 percent, from the same quarter of 2007 , such increases primarily attributable to new branch promotions, and the banks continuing focus on attracting and retaining non-interest bearing deposits.

The efficiency ratio (non-interest expense/net interest income plus non-interest income) was 52 percent for the 2008 second quarter, compared to 57 percent for the 2007 second quarter, a five percentage point improvement.

RESULTS OF OPERATIONS - THE SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2007

## Performance Summary

Net earnings of $\$ 35.858$ million for the first half of 2008 is an increase of
$\$ 3.040$ million, or 9 percent over the first half of the prior year. Diluted earnings per share of $\$ 0.66$ versus $\$ 0.61$ for the same period last year is an increase of 8 percent. Included in first half of 2007 earnings is a nonrecurring $\$ 1.0$ million gain (\$1.6 million pre-tax) from the sale of Western Security Bank's Lewistown, Montana branch, which was partially offset by approximately $\$ 500$ thousand of nonrecurring expenses from the merger of three of the acquired Citizens Development Company's ("CDC") five subsidiaries into the Company's subsidiaries.

REVENUE SUMMARY
(UNAUDITED - \$ IN THOUSANDS)


Net Interest Income
Net interest income for the six months increased $\$ 13$ million, or 14 percent, over the same period in 2007. Total interest income increased $\$ 3$ million, or 2
percent, while total interest expense decreased $\$ 9$ million, or 16
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 4.65 percent, an increase of 16 basis points from the 4.49 percent for the same period in 2007 .

Provision for Loan Losses

The provision for loan loss expense was $\$ 8$ million for the first six months of 2008, an increase of $\$ 5$ million, or 214 percent, from the same period in 2007. The increase in the provision reflects an increase in non-performing loans since December 31,2007 , as well as reserves for certain commercial real estate loans in western Montana and Idaho. Net charged-off loans during the six months ended June 30, 2008 was $\$ 1.148$ million.

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Non-interest Income

Total non-interest income increased $\$ 1.5$ million, or 5 percent in 2008. Fee income for the first half of 2008 increased $\$ 1$ million, or 6 percent, over the first half of 2007, driven primarily by an increased number of loan and deposit accounts, and additional customer products and services offered. Gain on sale of loans increased $\$ 1.4$ million, or 20 percent, from the first six months of last year. Gain from the sale of investments during the first half of 2008 included a first quarter mandatory redemption of a portion of Visa, Inc. shares from its initial public offering, and the sale of shares in Principal Financial Group (PFG). Other income for the six months decreased $\$ 1.4$ million, or 41 percent, over the same period in 2007. Such decrease is attributable to a gain of $\$ 1.6$ million from the January 19,2007 sale of Western Security Bank's Lewistown branch, a regulatory requirement imposed to complete the acquisition of CDC.

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

Compensation and employee benefits Occupancy and equipment expense Advertising and promotion expense Outsourced data processing
Core deposit intangibles amortization Other expenses

Total non-interest expense

Six months ended June 30,

| 2008 |  | 2007 |  |  | change | \% change |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 42,064 | \$ | 40,100 | \$ | 1,964 | 5\% |
|  | 10,249 |  | 9,270 |  | 979 | 11\% |
|  | 3,372 |  | 3,021 |  | 351 | 12\% |
|  | 1,314 |  | 1,492 |  | (178) | -12\% |
|  | 1,546 |  | 1,589 |  | (43) | -3\% |
|  | 13,511 |  | 12,785 |  | 726 | 6\% |
| \$ | 72,056 | \$ | 68,257 |  | 3,799 | 6\% |

Non-interest Expense
Non-interest expense increased by $\$ 4$ million, or 6 percent, from the same six months of 2007 . The first half of 2007 included approximately $\$ 500,000$ of non-recurring expenses and costs, including overtime, associated with the January 26, 2007 merger of three of the five CDC subsidiaries into Glacier Bancorp, Inc.'s subsidiaries, and related operating system conversions. Compensation and employee benefit expense increased $\$ 2$ million, or 5 percent, from the first half of 2007, due largely to the increased number of employees added since June 30,2007 . Occupancy and equipment expense increased $\$ 979$ thousand, or 11 percent, while other expenses increased $\$ 726$ thousand, or 6 percent, since June 30,2007 , reflecting the cost of additional locations and facility upgrades. Advertising and promotion expense increased $\$ 351$ thousand, or 12 percent, from the first half of 2007 , due primarily to new branch promotions, and the banks continuing focus on attracting and retaining non-interest bearing deposits. The efficiency ratio (non-interest expense/net interest income plus non-interest income) was 54 percent for the first half of 2008 compared favorably to 57 percent for the first six months of 2007 .

As reflected in the table below, total assets at June 30,2008 were $\$ 5.028$ billion, which is $\$ 211$ million, or 4 percent greater than total assets of $\$ 4.817$ billion at December 31, 2007, and $\$ 355$ million, or 8 percent, greater than the June 30, 2007 total assets of $\$ 4.673$ billion.

## ASSETS (\$ IN THOUSANDS)

Cash on hand and in banks
Investment securities, interest bearing deposits,
FHLB stock, FRB stock, and fed funds
Loans:
Real estate
Commercial
Consumer and other

Total loans
Allowance for loan and lease losses

Total loans net of allowance for loan and lease losses

Other assets

Total Assets

| $\begin{gathered} \text { June } 30, \\ 2008 \\ \text { (unaudited) } \end{gathered}$ | $\begin{gathered} \text { December } 31, \\ 2007 \\ \text { (audited) } \end{gathered}$ |
| :---: | :---: |
| \$ 123,545 | 145,697 |
| 800,206 | 782,236 |
| 746,193 | 725,854 |
| 2,396,098 | 2,247,303 |
| 678,661 | 638,378 |
| $\begin{aligned} & 3,820,952 \\ & \quad(60,807) \end{aligned}$ | $\begin{array}{r} 3,611,535 \\ \quad(54,413) \end{array}$ |
| 3,760,145 | 3,557,122 |
| 343,972 | 332,275 |
| \$ 5,027,868 | $4,817,330$ |

June 200

At June 30, 2008, total loans were $\$ 3.821$ billion, an increase of $\$ 139$ million, or 3.8 percent ( 15 percent annualized) over total loans of $\$ 3.682$ billion at March 31, 2008, and an increase of $\$ 209$ million, or 6 percent (12 percent annualized) over total loans of $\$ 3.612$ billion at December 31, 2007. Over the first half of 2008, commercial loans increased the most with an increase of $\$ 149$ million, or 7 percent, followed by consumer loans, which are primarily comprised of home equity loans, increasing by $\$ 40$ million, or 6 percent, while real estate loans increased $\$ 20$ million, or 3 percent from the fourth quarter of 2007 . Since June 30, 2007, total loans have increased $\$ 437$ million, or 13 percent, of which commercial loans increased $\$ 444$ million, or 23 percent, consumer loans grew by \$66 million, or 11 percent, while real estate loans decreased $\$ 73$ million, or 9 percent.

Investment securities, including interest bearing deposits in other financial institutions and federal funds sold, have increased $\$ 18$ million, or 2 percent, from December 31, 2007 and have decreased $\$ 73$ million, or 8 percent, from June 30, 2007. Investment securities at June 30,2008 represented 16 percent of total assets at June 30,2008 and at December 31,2007 compared to 19 percent at June 30, 2007 .

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 six months ended June 30,2008 and 2007 were $\$ 356$ million and $\$ 310$ million, respectively, and for the three months ended June 30, 2008 and 2007 were $\$ 180$ million and $\$ 168$ 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 June 30, 2008 was
approximately $\$ 185$ million.

Allowance for Loan and Lease Losses

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 interest rate shock testing.

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 subsidiary bank'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 banks operate, changes in collateral values, delinquencies, non-performing assets and net charge-offs. Relative to national economic developments, the local market areas in which the banks operate largely continue to have economies that foster the above-average job and population growth achieved over the course of 2007 . Although the Company and the banks continue to actively monitor national and local 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 Company considers the ALLL balance of $\$ 60.807$ million adequate to cover inherent losses in the loan and lease portfolios as of June 30, 2008. 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 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.

The Company's model of ten wholly-owned, independent community banks, each with it own loan committee, chief credit officer and Board of Directors, provides substantial local oversight to the lending and credit management function. Loan relationships exceeding a bank's loan approval limit up to $\$ 10$ million are subject to approval by the Executive Loan Committee consisting of the ten banks' chief credit officers and the Company's Credit Administrator. Loans exceeding \$10 million are subject to approval by the Company's Board of Directors. 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

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of rapid economic downturns.

At the end of each quarter, each of the subsidiary community banks analyzes its loan and lease portfolio and maintain an ALLL at a level that is appropriate and determined in accordance with accounting principals 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.

The ALLL evaluation is well documented and approved by each subsidiary bank's Board of Directors and reviewed by the Company's Board of Directors. In addition, the policy and procedures for determining the balance of the ALLL are reviewed annually by each subsidiary bank's Board of Directors and the Company's Board of Directors.

The primary responsibility for credit risk assessment and identification of problem loans rests with the loan officer of the account. This continuous process, utilizing each of the bank's internal credit risk rating process, is necessary to support management's evaluation of 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 following table summarizes the allocation of the ALLL:

|  | June 30, 2008 |  |  | December 31, 2007 |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in thousands) |  | nce <br> and <br> ses | Percent <br> of loans in category | Allowance <br> for loan and lease Losses | Percent <br> of loans in category |
| Real estate loans | \$ | 5,391 | 19.6\% | 4,755 | 20.2\% |
| Commercial real estate loans |  | 26,310 | 45.3\% | 23,010 | $44.6 \%$ |
| Other commercial loans |  | 19,063 | 17.4\% | 17,453 | 17.6\% |
| Consumer and other loans |  | 10,043 | 17.7\% | 9,195 | $17.6 \%$ |
| Totals | \$ | 60,807 | 100.0\% | 54,413 | $100.0 \%$ |

Each bank's ALLL is generally available to absorb losses from any segment of its loan and lease portfolio.

The increase in the ALLL for commercial real estate loans was primarily due to increases in reserves for certain commercial real estate loans in the high growth areas of Western Montana and Idaho, most notably in the Coeur d'Alene, Sandpoint and Boise markets, and the increase in non-performing assets since June 30, 2007.

```
            (Dollars in thousands)
Balance at beginning of period
        Charge-offs:
    Real estate loans
    Commercial loans
    (570)
    Consumer and other loans
Total charge-offs
Recoveries:
    Real estate loans
    Commercial loans
\begin{tabular}{lrr}
44 & 208 \\
& 178 & 656 \\
128 & 358 \\
---------------- & ------------- \\
\(\$\) & 350 & 1,222
\end{tabular}
Net (charge-offs) recoveries
Acquisition (1)
Provision
Balance at end of period
Ratio of net (charge-offs) recoveries to
    average loans outstanding during the period
\begin{tabular}{rr}
\((1,148)\) \\
- \\
7,542 \\
-------------- \\
\(\$\) & 60,807 \\
\(================\)
\end{tabular}
\begin{tabular}{|c|c|c|}
\hline \multirow[t]{4}{*}{\$} & 54,413 & 49,259 \\
\hline & (580) & (306) \\
\hline & (570) & \((2,367)\) \\
\hline & (348) & (714) \\
\hline \$ & \((1,498)\) & \((3,387)\) \\
\hline
\end{tabular}
```


## Recoveries:

```
Real estate loans
Commercial loans 178
Consumer and other loans
Total recoveries
Net (charge-offs) recoveries
Acquisition (1)
Provision
Balance at end of period
Ratio of net (charge-offs) recoveries to average loans outstanding during the period
Allowance for loan and lease lossess as a percentage of total loan and leases \(1.59 \% 1.51 \%\)
(1) Increase attributable to the April 30, 2007 acquisition of North Side State Bank ("North Side") of Rock Springs, Wyoming, which was merged into 1st Bank, the Company's subsidiary bank in Evanston, Wyoming.
The ALLL has increased \(\$ 8.4\) million, or 16 percent, from a year ago. The ALLL of \(\$ 60.807\) million is 1.59 percent of June 30,2008 total loans outstanding, up from 1.51 percent at prior year end, and up from 1.55 percent in the second quarter last year. The first six months provision for loan and lease loss expense was \(\$ 7.5\) million, an
```

increase of $\$ 5.1$ million from the same period in 2007 . Net loans and lease charge-offs were $\$ 1.1$ million, or .030 percent of average loans and leases in the first six months of 2008 , compared to net recoveries of $\$ 119$ thousand, or . . 004 percent of average loans and leases in the first six months of 2007.

The banks' charge-off policy is consistent with bank regulatory standards. Consumer loans generally are charged off when the loan becomes over 120 days delinquent. Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until such time as it is sold. When such property is acquired, it is recorded at the lower of the unpaid principal balance or estimated fair value, not to exceed estimated net realizable value. Any write-down at the time of recording real estate owned is charged to the ALLL. Any subsequent write-downs are charged to current expense.
Non-performing Assets
(Dollars in thousands)

Non-accrual loans:
Real estate loans
Commercial loans
Consumer and other loans

Total
Accruing Loans 90 days or more overdue:
Real estate loans
Commercial loans
Consumer and other loans

Total

Real estate and other assets owned, net

Total non-performing loans and real estate and other assets owned, net

As a percentage of total bank assets

At
$6 / 30 / 2008$

At
12/31/2007

At
6/30/2007

| \$ | 1,293 | 934 | 977 |
| :---: | :---: | :---: | :---: |
|  | 17,788 | 7,192 | 3,799 |
|  | 593 | 434 | 459 |
| \$ | 19,674 | 8,560 | 5,235 |
|  | 467 | 840 | 659 |
|  | 3,006 | 1,216 | 3,791 |
|  | 227 | 629 | 142 |
| \$ | 3,700 | 2,685 | 4,592 |
|  | 6,523 | 2,043 | 2,153 |
| \$ | 29,897 | 13,288 | 11,980 |
|  | $0.58 \%$ | $0.27 \%$ | 0.25 |
| \$ | 707 | 683 | 206 |

Allowance for loan and lease losses as a percentage of non-performing assets
----------
(1) Amounts represent interest income that would have been recognized on loans accounted for on a non-accrual basis for the six months ended June 30, 2008, year ended December 31, 2007 and six months ended June 30, 2007 had such loans performed pursuant to contractual terms.

Non-performing assets as a percentage of total bank assets at June 30, 2008 were at . 58 percent, up from . 57 percent as of March 31, 2008 , and up from. 25 percent at June 30,2007 . These ratios compare favorably to the Federal Reserve Bank Peer Group average of 1.06 percent at March 31, 2008, the most recent information available. The ALLL was 203 percent of non-performing assets at June 30, 2008, down from 409 percent for the prior year end and down from 438 percent a year ago. Each of the subsidiary banks 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 in most instances the value of the underlying real estate collateral is adequate to minimize any significant charge-offs or loss to the Company.

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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. When the ultimate collectibility 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 collectibility 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 and six months ended June 30, 2008 and 2007 was not significant. Impaired loans, net of government guaranteed amounts, were $\$ 23.707$ million and $\$ 5.235$ million as of June 30, 2008 and 2007, respectively. The ALLL includes valuation allowances of $\$ 3.030$ million and $\$ 0$ specific to certain impaired loans as of June 30, 2008 and 2007, respectively.

LIABILITIES (\$ IN THOUSANDS)

Non-interest bearing deposits
Interest bearing deposits
Advances from Federal Home Loan Bank
Securities sold under agreements to repurchase and other borrowed funds Other liabilities Subordinated debentures

Total liabilities

|  | $\begin{aligned} & \text { June } 30 \text {, } \\ & 2008 \\ & \text { (unaudited) } \end{aligned}$ | December 31, 2007 (audited) | $\begin{aligned} & \text { June } 30 \text {, } \\ & 2007 \\ & \text { (unaudited) } \end{aligned}$ |
| :---: | :---: | :---: | :---: |
| \$ | 778,786 | 788,087 | 820,728 |
|  | 2,347,137 | 2,396,391 | 2,533,957 |
|  | 658,211 | 538,949 | 260,224 |
|  | 531,648 | 401,621 | 390,780 |
|  | 43,884 | 45,147 | 49,036 |
|  | 118,559 | 118,559 | 118,559 |
| \$ | 4,478,225 | 4,288,754 | 4,173,284 |

Non-interest bearing deposits increased $\$ 8$ million, or 1 percent, since March 31, 2008, decreased $\$ 9$ million, or 1 percent, since December 31, 2007, and decreased $\$ 42$ million, or 5 percent, since June 30, 2007. Interest bearing deposits decreased $\$ 49$ million from December 31, 2007. The decrease of $\$ 187$ million in interest bearing deposits since June 30 , 2007 includes a $\$ 226$ million decrease in higher cost brokered CD's in favor of lower cost interest bearing
deposits. FHLB of Seattle advances increased $\$ 398$ million from June 30 , 2007 and increased $\$ 119$ million from December 31, 2007. Repurchase agreements and other borrowed funds were $\$ 532$ million at June 30, 2008, an increase of $\$ 141$ million from June 30, 2007, and an increase of $\$ 130$ million from December 31, 2007. Included in this latter category are U.S. Treasury Tax and Loan funds of $\$ 199$ million at June 30, 2008, a decrease of $\$ 17$ million from December 31, 2007, and a decrease of $\$ 27$ million from June 30, 2007.
STOCKHOLDERS' EQUITY
(\$ IN THOUSANDS EXCEPT PER SHARE DATA)
Common equity
Accumulated other comprehensive (loss) income
Total stockholders' equity
Core deposit intangible, net, and goodwill
Stockholders' equity to total assets
Tangible stockholders' equity to total tangible
$\quad$ assets
Book value per common share
Market price per share at end of quarter

Total stockholders' equity and book value per share amounts have increased $\$ 50$ million and $\$ .84$ per share, respectively, from June 30,2007 , the result of earnings retention and exercised stock options. Tangible stockholders equity has increased $\$ 53$ million, or 15 percent since June 30,2007 , with tangible stockholders' equity at 8.14 percent of total tangible assets at June 30, 2008, up from 7.62 percent at June 30, 2007. Accumulated other comprehensive income, representing net unrealized gains or losses on investment securities designated as available for sale, decreased $\$ 2$ million from June 30, 2007.

Cash dividend

On June 25, 2008, the board of directors declared a cash dividend of $\$ .13$ payable July 17, 2008 to shareholders of record on April 8, 2008, which is an increase of 8 percent over the $\$ .12$ dividend declared in the first quarter of last year.

## Liquidity and Capital Resources

The objective of liquidity management is to maintain cash flows adequate to meet current and future needs for credit demand, deposit withdrawals, maturing liabilities and corporate operating expenses. The principal source of the Company's cash revenues are dividends received from the Company's banking subsidiaries. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends which would constitute an unsafe or unsound banking practice. The subsidiaries' source of funds is generated by deposits, principal and
interest payments on loans, sale of loans and securities, short and long-term borrowings, and net earnings. In addition, all of the banking subsidiaries are members of the FHLB of Seattle. As of June 30,2008 , the Company had $\$ 951$ million of available FHLB of Seattle credit of which $\$ 658$ milion was utilized. Accordingly, management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each individual institution as well as the Company as a whole.

Lending Commitments

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

Impact of Recently Issued Accounting Standards

In December 2007, FASB issued SFAS No. $141(R)$, Business Combinations. The objective of this Statement 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


#### Abstract

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.


Merger of Bank Subsidiaries

Effective April 30, 2008, Whitefish merged into Glacier with the combined operations conducted under the Glacier charter. In connection with the merger, Russ Porter, President of Whitefish, has joined Mountain West as President and Chief Operating Officer.

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.

Forward Looking Statements
This Form 10-Q includes forward looking statements, which describe management's expectations regarding future events and developments such as future operating results, growth in loans and deposits, continued success of the Company's style

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK
The Company believes that there have not been any material changes in information about the Company's market risk than was provided in the Form $10-\mathrm{K}$ report for the year ended December 31, 2007.

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

Changes in Internal Controls
There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second quarter 2008, 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 the community bank subsidiaries are exposed to certain risks. The following is a discussion of the most significant risks and uncertainties

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that may affect the Company's business, financial condition and future results.

Fluctuating interest rates can adversely affect our profitability

The Company's profitability is dependent to a large extent upon net interest income, which is the difference (or "spread") between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the Company's interest rate spread, and, in turn, the profitability. The Company cannot provide assurance that it can minimize interest rate risk. In addition, interest rates also affect the amount of money the Company can lend. When interest rates rise, the cost of borrowing also increases. Accordingly, changes in levels of market interest rates could materially and adversely affect the net interest spread, asset quality, loan origination volume, business and prospects.

A tightening of the credit market may make it difficult to obtain available money to fund loan growth, which could adversely affect our earnings

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

Allowance for Loan and Lease Losses may not be adequate to cover actual loan losses, which could adversely affect earnings

The Company maintains an ALLL in an amount that is believed adequate to provide for losses inherent in the portfolio. While the Company strives to carefully monitor credit quality and to identify loans that may become non-performing, at any time there are loans included in the portfolio that will result in losses that have not been identified as non-performing or potential problem loans. The Company cannot be sure that it will be able to identify deteriorating loans before they become non-performing assets, or that it will be able to limit losses on those loans that are identified. As a result, future significant additions to the ALLL may be necessary. Additionally, future additions to the ALLL may be required based on changes in the composition of the loans comprising the portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions or as a result of incorrect assumptions by management in determining the ALLL. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review
the Company's ALLL. These regulatory agencies may require the Company to increase the ALLL which could have a negative effect on the Company's financial condition and results of operation. A critical element in determining the adequacy of the $A L L L$ is the maintenance of the underlying collateral values, most of which are in real estate.

Concentration in Real Estate Market

The Company has a high concentration of loans secured by real estate and a downturn in the real estate market, for any reason, could hurt business and prospects. In particular, if the nationwide economic decline migrates further to the markets the Company serves, the Company could be exposed to additional risk of losses from real estate related loans. Business activities and credit exposure are concentrated in loans secured by real estate. A decline in the real estate market could negatively affect the business because the collateral securing those loans may decrease in value. A downturn in the economics of the markets the Company serves could have a material adverse effect both on the borrowers' ability to repay these loans, as well as the value of the real property held as collateral. The ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and the Company would more likely to suffer losses on defaulted loans.

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

## Competition in our market area may limit our future success

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

The FDIC likely will increase insurance premiums to rebuild and maintain the federal deposit insurance fund

Based on recent events and the state of the economy, it is likely that the FDIC may increase federal deposit insurance premiums as early as September 2008. Depending on the circumstances, this increase may be relatively significant and will add to the Company's cost of operations. It is too soon to predict the exact amount of any premium increase or the impact on the company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
(a) Not Applicable
(b) Not Applicable
(c) Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
(a) Not Applicable
(b) Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS
(a) The Company's Annual Shareholders' Meeting was held April 30, 2008
(b) Not Applicable
(c) A brief description of each matter voted upon at the Annual Meeting and the number of votes cast for, against, or withheld, including a separate tabulation with respect to each nominee to serve on the Board is presented below:
(1) Election of Directors for three-year terms expiring in 2011 and until their successors have been elected and have qualified.

Michael J. Blodnick

| Votes Cast For: | $45,528,380$ |
| :--- | ---: |
| Votes Cast Withheld: | 484,097 |

Allen J. Fetscher

| Votes Cast For: | $45,463,750$ |
| :--- | ---: |
| Votes Cast Withheld: | 548,727 |

John W. Murdoch

| Votes Cast For: | $45,307,712$ |
| :--- | ---: |
| Votes Cast Withheld: | 704,766 |

(2) To approve an amendment to the Company's Articles of Incorporation to eliminate the current staggered terms of the board of directors and instead provide for the annual election of all directors.

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Votes Cast For: 37,835,271
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Votes Cast Withheld: 951,514
(d) None

ITEM 5. OTHER INFORMATION
(a) Not Applicable
(b) Not Applicable

ITEM 6. EXHIBITS

Exhibit 3.i. - Amended and Restated Articles of Incorporation
Exhibit 3.ii.- Amended and Restated Bylaws

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Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Section
    3 0 2 \text { of the Sarbanes - Oxley Act of 2002}
Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Section
    3 0 2 \text { of the Sarbanes - Oxley Act of 2002}
Exhibit 32 - Certification of Chief Executive Officer and Chief Financial
    Officer pursuant to 18 U.S.C. Section 1350, as adopted
    pursuant to Section 906 of the Sarbanes - Oxley Act of 2002
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## SIGNATURES

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

August 8, 2008

August 8, 2008

GLACIER BANCORP, INC.
/s/ Michael J. Blodnick
Michael J. Blodnick
President/CEO
/s/ Ron J. Copher
Ron J. Copher
Senior Vice President/CFO


[^0]:    (1) Excludes tax effect of $\$ 2,810$ and $\$ 1,405$ on non-taxable investment security income for the year and quarter ended June 30, 2008,

