GLACIER BANCORP INC
Form 10-K
February 28, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

or

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

For the transition period from to

Commission file number 000-18911

GLACIER BANCORP, INC.

(Exact name of registrant as specified in its charter)

MONTANA	**81-0519541**
(State or other jurisdiction of	**(IRS Employer**

incorporation or organization)	**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)

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

Common Stock, $0.01 par value per share	NASDAQ Global Select Market
(Title of each class)	**(Name of each exchange on which registered)**

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

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

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

Indicate by check mark whether the registrant (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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. x Yes ¨ No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the voting common equity held by non-affiliates of the Registrant at June 30, 2011 (the last business day of the most recent second quarter), was $941,037,169 (based on the average bid and ask price as quoted on the NASDAQ Global Select Market at the close of business on that date).

As of February 14, 2012, there were issued and outstanding 71,915,073 shares of the Registrant s common stock. No preferred shares are issued or outstanding.

Document Incorporated by Reference

Portions of the 2012 Annual Meeting Proxy Statement dated March 28, 2012 are incorporated by reference into Part III of this Form 10-K.

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GLACIER BANCORP, INC.

FORM 10-K ANNUAL REPORT

For the Year ended December 31, 2011

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PART I

Item 1. Business

GENERAL DEVELOPMENT OF BUSINESS

Glacier Bancorp, Inc. (the Company), headquartered in Kalispell, Montana, is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation originally incorporated in 1990. The Company is a regional multi-bank holding company providing commercial banking services from 106 locations in Montana, Idaho, Wyoming, Colorado, Utah and Washington. The Company offers a wide range of banking products and services, including transaction and savings deposits, real estate, commercial, agriculture, and consumer loans, mortgage origination services, and retail brokerage services. The Company serves individuals, small to medium-sized businesses, community organizations and public entities. For information regarding the Company s lending, investment and funding activities, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Subsidiaries

The Company includes the parent holding company (Parent) and the following wholly-owned nineteen subsidiaries which consist of eleven bank subsidiaries (collectively referred to hereafter as the Banks) and eight other subsidiaries.

Bank Subsidiaries

Montana

Glacier Bank (Glacier) founded in 1955

First Security Bank of Missoula (First Security) founded in 1973

Western Security Bank (Western) founded in 2001

Big Sky Western Bank (Big Sky) founded in 1990

Valley Bank of Helena (Valley) founded in 1978

First Bank of Montana (First Bank-MT) founded in 1924

Idaho

Mountain West Bank (Mountain West) founded in 1993

Citizens Community Bank (Citizens) founded in 1996

Wyoming

1st Bank (1st Bank) founded in 1989

First Bank of Wyoming (First Bank-WY) founded in 1912

Colorado

Bank of the San Juans (San Juans) founded in 1998

Other Subsidiaries

GBCI Other Real Estate (GORE)

Glacier Capital Trust II (Glacier Trust II)

Glacier Capital Trust III (Glacier Trust III)

Glacier Capital Trust IV (Glacier Trust IV)

Citizens (ID) Statutory Trust I (Citizens Trust I)

Bank of the San Juans Bancorporation Trust I (San Juans Trust I)

First Company Statutory Trust 2001 (First Co Trust 01)

First Company Statutory Trust 2003 (First Co Trust 03)

The Company formed GORE to isolate certain bank foreclosed properties for legal protection and administrative purposes. The foreclosed properties were sold to GORE at fair market value in 2011 and 2010 by bank subsidiaries and properties remaining are currently held for sale.

The Company formed or acquired Glacier Trust II, Glacier Trust III, Glacier Trust IV, Citizens Trust I, San Juans Trust I, First Co Trust 01, and First Co Trust 03 as financing subsidiaries. The trusts were formed for the purpose of issuing trust preferred securities and the subsidiaries are not consolidated into the Company s financial statements. The preferred securities entitle the shareholder to receive cumulative cash distributions from payments on subordinated debentures of the Company. For additional information regarding the subordinated debentures, see Note 10 to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

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

In January 2012, the Company announced that it plans to combine its eleven bank subsidiaries into a single commercial bank. The bank subsidiaries will operate as separate divisions of Glacier under the same names, management teams and divisions as before the consolidation. As part of the consolidation, the Company will file with the appropriate federal and state bank regulators an application to merge the bank subsidiaries. The resulting bank Board of Directors and executive officers will be the Board of Directors and senior management team of the Parent. The consolidation is expected to be completed early in the second quarter of 2012, following regulatory approvals.

Acquisitions

The Company s strategy has been to profitably grow its business through internal growth and selective acquisitions. The Company continues to look for profitable expansion opportunities in existing markets and new markets in the Rocky Mountain states. During the last five years, the Company has completed the following acquisitions: On October 2, 2009, First Company and its subsidiary, First Bank of Wyoming, formerly First National Bank & Trust, was acquired by the Company. On December 1, 2008, Bank of the San Juans Bancorporation and its subsidiary, Bank of the San Juans in Durango, Colorado, was acquired by the Company. On April 30, 2007, North Side State Bank (North Side) in Rock Springs, Wyoming was acquired and became a part of 1st Bank.

Bank Locations at December 31, 2011

The following is a list of the Parent and bank subsidiaries main office locations as of December 31, 2011. See Item 2. Properties.

Glacier Bancorp, Inc.	49	Commons Loop, Kalispell, MT 59901	(406) 756-4200
Glacier	202	Main Street, Kalispell, MT 59901	(406) 756-4200
Mountain West	125	Ironwood Drive, Coeur d Alene, Idaho 83814	(208) 765-0284
First Security	1704	Dearborn, Missoula, MT 59801	(406) 728-3115
Western	2812	1st Avenue North, Billings, MT 59101	(406) 371-8258
1st Bank	1001	Main Street, Evanston, WY 82930	(307) 789-3864
Valley	3030	North Montana Avenue, Helena, MT 59601	(406) 495-2400
Big Sky	4150	Valley Commons, Bozeman, MT 59718	(406) 587-2922
First Bank-WY	245	East First Street, Powell, WY 82435	(307) 754-2201
Citizens	280	South Arthur, Pocatello, ID 83204	(208) 232-5373
First Bank MT	224	West Main, Lewistown, MT 59457	(406) 538-7471
San Juans	144	East Eighth Street, Durango, CO 81301	(970) 247-1818

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Financial Information about Segments

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

	278,927	278,927	278,927	278,927	278,927	278,927	278,927	278,927	278,927
		Glacier			Mountain West			First Security	
(Dollars in thousands)	2011	2010	2009	2011	2010	2009	2011	2010	2009
Condensed Income Statements									
Net interest income	49,220	50,260	57,139	42,603	47,786	53,302	38,224	35,676	35,788
Non-interest income	15,571	15,272	15,387	22,608	26,148	27,882	7,384	7,799	8,103
Total revenues	64,791	65,532	72,526	65,211	73,934	81,184	45,608	43,475	43,891
Provision for loan losses	(16,800)	(20,050)	(32,000)	(30,100)	(45,000)	(50,500)	(9,950)	(8,100)	(10,450)
Core deposit intangibles amortization	(119)	(192)	(330)	(66)	(172)	(184)	(261)	(425)	(468)
Goodwill impairment charge				(23,159)					
Other non-interest expense	(30,537)	(29,113)	(27,325)	(52,769)	(51,203)	(51,525)	(20,548)	(21,842)	(18,897)
Income (loss) before income taxes	17,335	16,177	12,871	(40,883)	(22,441)	(21,025)	14,849	13,108	14,076
Income tax (expense) benefit	(3,386)	(2,989)	(2,803)	16,087	10,262	9,764	(2,936)	(2,798)	(3,372)
Net income (loss)	13,949	13,188	10,068	(24,796)	(12,179)	(11,261)	11,913	10,310	10,704
Average Balance Sheet Data									
Total assets	1,359,602	1,331,845	1,249,755	1,139,673	1,198,523	1,219,435	1,065,487	934,513	916,115
Total loans and loans held for sale	808,415	889,644	967,239	739,092	906,484	976,132	571,802	574,734	580,401
Total deposits	745,608	724,076	605,928	795,677	804,161	709,834	714,286	673,633	567,649
Stockholders equity	181,483	162,116	137,188	175,355	175,059	135,932	130,402	127,915	122,153
End of Year Balance Sheet Data									
Total assets	1,376,715	1,374,067	1,325,039	1,130,766	1,164,903	1,172,331	1,102,203	1,004,835	890,672
Total loans, net of ALLL	749,032	822,476	895,489	636,601	752,964	892,804	544,838	548,258	547,050
Total deposits	807,505	740,391	726,403	806,039	770,058	793,006	732,672	713,098	588,858
Stockholders equity	190,359	172,224	139,799	159,219	178,765	146,720	136,835	122,807	120,044
Ratios and Other									
Return on average assets	1.03%	0.99%	0.81%	-2.18%	-1.02%	-0.92%	1.12%	1.10%	1.17%
Return on average equity	7.69%	8.13%	7.34%	-14.14%	-6.96%	-8.28%	9.14%	8.06%	8.76%
Tier I risk-based capital ratio	18.67%	16.61%	12.33%	19.13%	18.81%	13.39%	15.91%	15.35%	14.91%
	19.95%	17.89%	13.61%	20.42%	20.09%	14.67%	17.18%	16.62%	16.18%

Total risk-based capital ratio									
Leverage capital ratio	13.00%	11.98%	10.09%	12.81%	13.29%	10.98%	10.49%	10.82%	11.32%
Full time equivalent employees	262	266	274	361	377	376	185	187	178
Locations	17	16	17	28	28	29	13	13	13

	278,927	**278,927**	**278,927**	**278,927**	**278,927**	**278,927**	**278,927**	**278,927**	**278,927**
		Western			1st Bank			Valley	
(Dollars in thousands)	2011	2010	2009	2011	2010	2009	2011	2010	2009
Condensed Income Statements									
Net interest income	21,236	20,519	21,233	22,251	22,796	24,057	14,303	13,611	14,051
Non-interest income	8,949	9,857	8,631	4,900	4,934	4,628	5,130	6,913	5,717
Total revenues	30,185	30,376	29,864	27,151	27,730	28,685	19,433	20,524	19,768
Provision for loan losses	(550)	(950)	(3,200)	(1,950)	(2,150)	(10,800)		(500)	(1,200)
Core deposit intangibles amortization	(332)	(519)	(571)	(530)	(591)	(652)	(9)	(42)	(42)
Goodwill impairment charge				(17,000)					
Other non-interest expense	(17,113)	(17,257)	(16,342)	(16,009)	(17,197)	(14,943)	(9,562)	(9,252)	(9,229)
Income (loss) before income taxes	12,190	11,650	9,751	(8,338)	7,792	2,290	9,862	10,730	9,297
Income tax (expense) benefit	(2,622)	(3,112)	(2,813)	(1,928)	(2,080)	(309)	(2,778)	(3,272)	(2,740)
Net income (loss)	9,568	8,538	6,938	(10,266)	5,712	1,981	7,084	7,458	6,557
Average Balance Sheet Data									
Total assets	777,489	662,391	604,020	760,357	653,143	606,649	417,688	351,608	312,273
Total loans and loans held for sale	278,927	315,663	344,456	254,914	280,954	312,372	188,441	189,443	195,007
Total deposits	569,799	527,135	410,490	506,231	448,003	414,059	286,075	257,660	196,506
Stockholders equity	90,768	88,276	87,837	105,196	106,426	97,859	34,164	32,240	34,246
End of Year Balance Sheet Data									
Total assets	808,512	766,367	624,077	785,730	717,120	650,072	462,300	394,220	351,228
Total loans, net of ALLL	248,167	288,005	304,291	232,708	254,047	283,138	185,261	174,354	178,745
Total deposits	550,725	577,147	504,619	535,670	468,966	421,271	304,418	276,567	211,935
Stockholders equity	92,490	86,606	85,259	94,027	107,234	101,789	34,780	31,784	30,585
Ratios and Other									
Return on average assets	1.23%	1.29%	1.15%	-1.35%	0.87%	0.33%	1.70%	2.12%	2.10%
Return on average equity	10.54%	9.67%	7.90%	-9.76%	5.37%	2.02%	20.74%	23.13%	19.15%
Tier I risk-based capital ratio	15.82%	15.30%	14.67%	18.22%	17.60%	14.99%	12.76%	13.82%	13.11%
Total risk-based capital ratio	17.07%	16.56%	15.93%	19.48%	18.87%	16.26%	14.01%	15.08%	14.37%

Leverage capital ratio	8.28%	9.21%	10.19%	8.49%	9.42%	9.74%	6.94%	8.05%	8.57%
Full time equivalent employees	155	163	161	139	144	141	89	85	85
Locations	8	8	8	12	12	12	6	6	6

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	218,148	218,148	218,148	218,148	218,148	218,148	218,148	218,148	218,148
		Big Sky			First Bank-WY			Citizens	
(Dollars in thousands)	2011	2010	2009	2011	2010	2009 [1]	2011	2010	2009
Condensed Income Statements									
Net interest income	13,803	14,168	15,700	10,643	10,315	3,964	11,368	10,591	10,437
Non-interest income	3,619	3,427	3,564	2,684	3,072	4,187	3,641	5,003	4,235
Total revenues	17,422	17,595	19,264	13,327	13,387	8,151	15,009	15,594	14,672
Provision for loan losses	(2,350)	(3,475)	(9,200)	(700)	(1,453)	(1,683)	(1,300)	(2,000)	(2,800)
Core deposit intangibles amortization	(5)	(23)	(23)	(577)	(577)	(144)	(75)	(93)	(111)
Goodwill impairment charge									
Other non-interest expense	(9,887)	(10,411)	(8,441)	(7,929)	(8,752)	(2,011)	(8,174)	(8,631)	(7,992)
Income (loss) before income taxes	5,180	3,686	1,600	4,121	2,605	4,313	5,460	4,870	3,769
Income tax (expense) benefit	(1,457)	(945)	(121)	(770)	(498)	(230)	(1,716)	(1,700)	(1,332)
Net income (loss)	3,723	2,741	1,479	3,351	2,107	4,083	3,744	3,170	2,437
Average Balance Sheet Data									
Total assets	368,377	366,749	340,827	368,274	305,977	72,641	327,185	263,466	234,382
Total loans and loans held for sale	238,955	262,342	287,338	136,738	150,029	39,416	161,892	168,498	168,675
Total deposits	210,420	209,786	178,465	281,881	245,583	60,832	226,802	192,357	146,780
Stockholders equity	67,074	61,063	45,683	42,217	38,371	7,870	36,334	33,627	30,814
End of Year Balance Sheet Data									
Total assets	385,434	362,416	368,571	390,917	351,624	295,953	362,420	289,507	241,807
Total loans, net of ALLL	218,148	236,373	258,817	128,238	139,300	150,155	149,818	154,914	151,731
Total deposits	221,541	199,599	184,278	288,482	258,454	247,256	238,314	207,473	159,763
Stockholders equity	67,652	64,656	51,614	43,774	40,322	31,364	38,058	34,215	31,969
Ratios and Other									
Return on average assets	1.01%	0.75%	0.43%	0.91%	0.69%	5.62%	1.14%	1.20%	1.04%
Return on average equity	5.55%	4.49%	3.24%	7.94%	5.49%	51.88%	10.30%	9.43%	7.91%
Tier I risk-based capital ratio	24.15%	21.95%	16.06%	18.90%	18.74%	15.98%	12.58%	11.85%	11.32%
Total risk-based capital ratio	25.43%	23.23%	17.34%	19.95%	19.98%	16.89%	13.85%	13.12%	12.59%
Leverage capital ratio	17.33%	17.43%	13.67%	10.40%	11.77%	10.38%	7.65%	8.86%	9.62%
Full time equivalent employees	89	85	83	78	80	75	71	71	70
Locations	5	5	5	4	4	3	6	6	6

	218,148	218,148	218,148	218,148	218,148	218,148	218,148	218,148	218,148
		First Bank-MT			San Juans			GORE	
(Dollars in thousands)	2011	2010	2009	2011	2010	2009	2011	2010	2009
Condensed Income Statements									
Net interest income	7,994	7,457	7,900	8,070	7,562	8,021			
Non-interest income	946	1,144	929	1,687	1,727	1,329	915	258	
Total revenues	8,940	8,601	8,829	9,757	9,289	9,350	915	258	
Provision for loan losses		(265)	(985)	(800)	(750)	(1,800)			
Core deposit intangibles amortization	(266)	(312)	(358)	(233)	(234)	(233)			
Goodwill impairment charge									
Other non-interest expense	(3,276)	(3,163)	(3,189)	(7,158)	(5,419)	(5,435)	(5,380)	(2,315)	
Income (loss) before income taxes	5,398	4,861	4,297	1,566	2,886	1,882	(4,465)	(2,057)	
Income tax (expense) benefit	(1,508)	(1,590)	(1,426)	(374)	(1,045)	(551)	1,737	806	
Net income (loss)	3,890	3,271	2,871	1,192	1,841	1,331	(2,728)	(1,251)	
Average Balance Sheet Data									
Total assets	249,842	209,189	179,885	225,013	198,415	175,107	17,320	12,561	
Total loans and loans held for sale	113,397	114,310	119,840	138,286	146,911	149,665			
Total deposits	176,319	153,132	121,770	180,845	162,745	140,528			
Stockholders equity	34,753	33,742	30,955	26,418	25,887	23,396	18,567	12,683	
End of Year Balance Sheet Data									
Total assets	265,621	239,667	217,379	243,723	230,345	184,528	7,195	20,610	
Total loans, net of ALLL	109,495	106,290	114,113	131,327	139,014	144,655			
Total deposits	186,361	165,816	143,552	195,067	184,217	148,474			
Stockholders equity	35,449	33,151	32,627	27,294	25,595	25,410	9,581	21,199	
Ratios and Other									
Return on average assets	1.56%	1.56%	1.60%	0.53%	0.93%	0.76%			
Return on average equity	11.19%	9.69%	9.27%	4.51%	7.11%	5.69%			
Tier I risk-based capital ratio	13.79%	13.93%	12.73%	12.36%	11.76%	11.11%			
Total risk-based capital ratio	15.05%	15.19%	13.99%	13.63%	13.03%	12.37%			
Leverage capital ratio	8.33%	9.18%	9.19%	8.48%	8.83%	10.33%			
Full time equivalent employees	39	39	40	44	46	41			
Locations	3	3	3	3	3	3			

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	Parent			Eliminations and Other			Total Consolidated		
(Dollars in thousands)	2011	2010	2009	2011	2010	2009	2011	2010	2009
Condensed Income Statements									
Net interest income	(4,102)	(5,973)	(6,265)	2			235,615	234,768	245,327
Non-interest income	35,082	61,924	52,466	(34,917)	(59,932)	(50,584)	78,199	87,546	86,474
Total revenues	30,980	55,951	46,201	(34,915)	(59,932)	(50,584)	313,814	322,314	331,801
Provision for loan losses							(64,500)	(84,693)	(124,618)
Core deposit intangibles amortization							(2,473)	(3,180)	(3,116)
Goodwill impairment charge							(40,159)		
Other non-interest expense	(16,065)	(14,613)	(13,769)	14,915	14,400	13,396	(189,492)	(184,768)	(165,702)
Income (loss) before income taxes	14,915	41,338	32,432	(20,000)	(45,532)	(37,188)	17,190	49,673	38,365
Income tax (expense) benefit	2,176	1,374	1,942	(244)	244		281	(7,343)	(3,991)
Net income (loss)	17,091	42,712	34,374	(20,244)	(45,288)	(37,188)	17,471	42,330	34,374
Average Balance Sheet Data									
Total assets	995,355	949,597	824,527	(1,148,846)	(1,130,937)	(1,043,687)	6,922,816	6,307,040	5,691,929
Total loans and loans held for sale				(5,068)			3,625,791	3,999,012	4,140,541
Total deposits				(24,372)	(39,887)	(59,234)	4,669,571	4,358,384	3,493,607
Stockholders equity	857,625	817,496	691,922	(942,731)	(897,405)	(753,933)	857,625	817,496	691,922
End of Year Balance Sheet Data									
Total assets	990,634	978,875	832,916	(1,124,264)	(1,135,269)	(962,778)	7,187,906	6,759,287	6,191,795
Total loans, net of ALLL				(5,014)	(3,813)		3,328,619	3,612,182	3,920,988
Total deposits				(45,581)	(39,884)	(29,263)	4,821,213	4,521,902	4,100,152
Stockholders equity	850,227	838,583	685,890	(929,518)	(918,937)	(797,180)	850,227	838,204	685,890
Ratios and Other									
Return on average assets							0.25%	0.67%	0.60%
Return on average equity							2.04%	5.18%	4.97%
Tier I risk-based capital ratio							18.99%	18.24%	14.02%
Total risk-based capital ratio							20.27%	19.51%	15.29%
Leverage capital ratio							11.81%	12.71%	11.20%
Full time equivalent employees	141	131	119				1,653	1,674	1,643

Locations	1	1	1	106	105	106

[1] The average balance sheet data is based on daily averages for the entire year, with First Bank-WY having been acquired October 2, 2009.

WEB SITE ACCESS

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

MARKET AREA

The Company has 106 locations, of which 9 are loan or administration offices, in 35 counties within 6 states including Montana, Idaho, Wyoming, Colorado, Utah, and Washington. The Company has 53 locations in Montana, 29 locations in Idaho, 14 locations in Wyoming, 3 locations in Colorado, 4 locations in Utah and 3 locations in Washington.

The market area s economic base primarily focuses on tourism, energy, construction, mining, manufacturing, service industry, and health care. The tourism industry is highly influenced by two national parks, several ski resorts, significant lakes, and rural scenic areas.

COMPETITION

Based on the Federal Deposit Insurance Corporation (FDIC) summary of deposits survey as of June 30, 2011, the Company has approximately 26 percent of the total FDIC insured deposits in the 13 counties that it services in Montana. In Idaho, the Company has approximately 7 percent of the deposits in the 9 counties that it services. In Wyoming, the Company has 26 percent of the deposits in the 6 counties it services. In Colorado, the Company has 12 percent of the deposits in the 2 counties it serves. In Utah, the Company has 13 percent of the deposits in the 3 counties it services.

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

EMPLOYEES

As of December 31, 2011, the Company employed 1,653 persons, 1,507 of whom were employed full time, none of whom were represented by a collective bargaining group. The Company provides its employees with a comprehensive benefit program, including medical and dental insurance, life and accident insurance, long-term disability coverage, sick leave, 401(k) and profit sharing plan, and a stock-based compensation plan. The Company considers its employee relations to be excellent. See Note 16 in the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for detailed information regarding employee benefit plans and eligibility requirements.

SUPERVISION AND REGULATION

Introduction

The following discussion provides an overview of certain elements of the extensive regulatory framework applicable to the Company and the Banks. This regulatory framework is primarily designed for the protection of depositors, the federal Deposit Insurance Fund and the banking system as a whole, rather than specifically for the protection of shareholders. Due to the breadth and growth of this regulatory framework, the costs of compliance continue to increase in order to monitor and satisfy these requirements.

To the extent that this section describes statutory and regulatory provisions, it is qualified by reference to those provisions. These statutes and regulations, as well as related policies, are subject to change by Congress, state legislatures and federal and state regulators. Changes in statutes, regulations or regulatory policies applicable to the Company, including the interpretation or implementation thereof, could have a material effect on the Company s business or operations. In light of the recent financial crisis, numerous changes to the statutes, regulations or regulatory policies applicable to the Company and Banks have been made or proposed. The full extent to which these changes will impact the Company and the Banks is not yet known. However, continued efforts to monitor and comply with new regulatory requirements add to the complexity and cost of the Company s business.

The Company recently announced plans to consolidate into Glacier its bank subsidiaries which operate throughout the states of Montana, Colorado, Idaho, Utah, Washington and Wyoming. The transaction is currently expected to close early in the second quarter of 2012. After this transaction is consummated, Glacier will be the sole bank subsidiary of the Company and will be subject to regulation and supervision by the Montana Department of Administration s Banking and Financial Institutions Division and the FDIC. With respect to divisions of Glacier outside of Montana, they will be subject to applicable state laws.

Bank Holding Company Regulation

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended (BHCA), due to its ownership of the bank subsidiaries. Glacier, First Security, Western, Valley, Big Sky, and First Bank-MT are Montana state-chartered banks; Mountain West and Citizens are Idaho state-chartered banks; 1st Bank and First Bank-WY are Wyoming state-chartered banks; and San Juans is a Colorado state-chartered bank. Customer deposits of the Banks are insured by the FDIC.

As a bank holding company, the Company is subject to regulation, supervision and examination by the Federal Reserve. In general, the BHCA limits the business of bank holding companies to owning or controlling banks and engaging in other activities closely related to banking. The Company must also file reports with and provide additional information to the Federal Reserve. Under the Financial Services Modernization Act of 1999, a bank holding company may apply to the Federal Reserve to become a financial holding company, and thereby engage (directly or through a subsidiary) in certain expanded activities deemed financial in nature, such as securities and insurance underwriting.

Holding Company Bank Ownership. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before 1) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5 percent of such shares; 2) acquiring all or substantially all of the assets of another bank or bank holding company; or 3) merging or consolidating with another bank holding company.

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

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

Tying Arrangements. The Company is prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Company nor the Banks may condition an extension of credit to a customer on either 1) a requirement that the customer obtain additional services provided by the Company or the Banks or 2) an agreement by the customer to refrain from obtaining other services from a competitor.

Support of Bank Subsidiaries. Under Federal Reserve policy and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Company is expected to act as a source of financial and managerial strength to its Banks. This means that the Company is required to commit, as necessary, resources to support the Banks. Any capital loans a bank holding company makes to its bank subsidiaries are subordinate to deposits and to certain other indebtedness of the bank subsidiaries.

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

The Bank Subsidiaries

Glacier, First Security, Western, Valley, Big Sky, and First Bank-MT are subject to regulation and supervision by the Montana Department of Administration s Banking and Financial Institutions Division and the FDIC.

Mountain West and Citizens are subject to regulation and supervision by the Idaho Department of Finance and by the FDIC. In addition, Mountain West s Utah and Washington branches are subject to regulation by the Utah Department of Financial Institutions and the Washington Department of Financial Institutions, respectively.

1st Bank and First Bank-WY are subject to regulation and supervision by the Wyoming Division of Banking and by the FDIC. In addition, 1st Bank s Utah branches are subject to regulation by the Utah Department of Financial Institutions.

San Juans is subject to regulation by the Colorado Department of Regulatory Agencies-Division of Banking and by the FDIC.

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

Consumer Protection. The Banks are subject to a variety of federal and state consumer protection laws and regulations that govern their relationship with consumers including laws and regulations that impose certain disclosure requirements and regulate the manner in which they take deposits, make and collect loans, and provide other services. Failure to comply with these laws and regulations may subject the Banks to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

Community Reinvestment. The Community Reinvestment Act of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, federal bank regulators must evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those banks. A bank s community reinvestment record is also considered by the applicable banking agencies in evaluating mergers, acquisitions, and applications to open a branch or facility.

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Insider Credit Transactions. Banks are also subject to certain restrictions on extensions of credit to executive officers, directors, principal shareholders, and their related interests. Extensions of credit 1) must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are at least as stringent, as those prevailing at the time for comparable transactions with persons not related to the lending bank; and 2) must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to insiders. A violation of these restrictions may result in the assessment of substantial civil monetary penalties, regulatory enforcement actions, and other regulatory sanctions.

Regulation of Management. Federal law 1) sets forth circumstances under which officers or directors of a bank may be removed by the institution s federal supervisory agency; 2) places restraints on lending by a bank to its executive officers, directors, principal shareholders, and their related interests; and 3) generally prohibits management personnel of a bank from serving as directors or in other management positions of another financial institution whose assets exceed a specified amount or which has an office within a specified geographic area.

Safety and Soundness Standards. Certain non-capital safety and soundness standards are also imposed upon the Banks. These standards cover, among other things, internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards may be subject to regulatory sanctions.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Interstate Act) together with the Dodd-Frank Act relaxed prior interstate branching restrictions under federal law by permitting, subject to regulatory approval, state and federally chartered commercial banks to establish branches in states where the laws permit banks chartered in such states to establish branches. The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. Federal bank regulations prohibit banks from using their interstate branches primarily for deposit production and federal bank regulatory agencies have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

Dividends

A principal source of the Company s cash is from dividends received from the Banks, which are subject to government regulation and limitation. Regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. State law limits a bank s ability to pay dividends that are greater than a certain amount without approval of the applicable agency. Additionally, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company s common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters.

Capital Adequacy

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

Tier I and Tier II Capital. Under the guidelines, an institution s capital is divided into two broad categories, Tier I capital and Tier II capital. Tier I capital generally consists of common shareholders equity, (including surplus and undivided profits), qualifying non-cumulative perpetual preferred stock, and qualified minority interests in the equity accounts of consolidated subsidiaries. Tier II capital generally consists of the allowance for loan and lease losses, hybrid capital instruments, and qualifying subordinated debt. The sum of Tier I capital and Tier II capital represents an institution s total capital. The guidelines require that at least 50 percent of an institution s total capital consist of Tier I capital.

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

Leverage Ratio. The guidelines also employ a leverage ratio, which is Tier I capital as a percentage of average total assets, less intangibles. The principal objective of the leverage ratio is to constrain the maximum degree to which banks may leverage its equity capital base. The minimum leverage ratio is 4 percent.

Prompt Corrective Action. Under the guidelines, an institution is assigned to one of five capital categories depending on its total risk-based capital ratio, Tier I risk-based capital ratio, and leverage ratio, together with certain subjective factors. The categories range from well capitalized to critically undercapitalized. Institutions that are undercapitalized or lower are subject to certain mandatory supervisory corrective actions. At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. During these challenging economic times, the federal banking regulators have actively enforced these provisions.

Regulatory Oversight and Examination

The Federal Reserve conducts periodic inspections of bank holding companies, which are performed both onsite and offsite. The supervisory objectives of the inspection program are to ascertain whether the financial strength of a bank holding company is maintained on an ongoing basis and to determine the effects or consequences of transactions between a bank holding company or its non-banking subsidiaries and its bank subsidiaries. For bank holding companies under $10 billion in assets, the inspection type and frequency varies depending on asset size, complexity of the organization, and the bank holding company s rating at its last inspection.

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

Corporate Governance and Accounting

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the Act) addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, the Act 1) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the SEC; 2) imposes specific and enhanced corporate disclosure requirements; 3) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; 4) requires companies to adopt and disclose information about corporate governance practices, including whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one audit committee financial expert; and 5) requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings.

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

Anti-Terrorism

USA Patriot Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, intended to combat terrorism, was renewed with certain amendments in 2006 (the Patriot Act). The Patriot Act, in relevant part, 1) prohibits banks from providing correspondent accounts directly to foreign shell banks; 2) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals; 3) requires financial institutions to establish an anti-money-laundering compliance program; and 4) eliminates civil liability for persons who file suspicious activity reports.

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Financial Services Modernization

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the GLB Act) brought about significant changes to the laws affecting banks and bank holding companies. Generally, the GLB Act 1) repeals historical restrictions on preventing banks from affiliating with securities firms; 2) provides a uniform framework for the activities of banks, savings institutions and their holding companies; 3) broadens the activities that may be conducted by national banks and banking subsidiaries of bank holding companies; 4) provides an enhanced framework for protecting the privacy of consumer information and requires notification to consumers of bank privacy policies; and 5) addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions. Bank holding companies that qualify and elect to become financial holding companies can engage in a wider variety of financial activities than permitted under previous law, particularly with respect to insurance and securities underwriting activities.

The Emergency Economic Stabilization Act of 2008

Emergency Economic Stabilization Act of 2008. In response to market turmoil and financial crises affecting the overall banking system and financial markets in the United States, the Emergency Economic Stabilization Act of 2008 (the EESA) was enacted on October 3, 2008. EESA provides the United States Treasury Department (the Treasury) with broad authority to implement certain actions intended to help restore stability and liquidity to the U.S. financial markets.

Troubled Asset Relief Program. Under the EESA, the Treasury has authority, among other things, to purchase up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions pursuant to the Troubled Asset Relief Program (TARP). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase lending to customers and to each other. Pursuant to the EESA, the Treasury was initially authorized to use $350 billion for TARP. Of this amount, the Treasury allocated $250 billion to the TARP Capital Purchase Program (CPP), which funds were used to purchase preferred stock from qualifying financial institutions. After receiving preliminary approval from Treasury to participate in the program, the Company elected not to participate in light of its capital position and due to its ability to raise capital successfully in private equity markets.

Temporary Liquidity Guarantee Program. Another program established pursuant to the EESA is the Temporary Liquidity Guarantee Program (TLGP), which 1) removed the limit on FDIC deposit insurance coverage for non-interest bearing transaction accounts through December 31, 2009, and 2) provided FDIC backing for certain types of senior unsecured debt issued from October 14, 2008 through June 30, 2009. The end-date for issuing senior unsecured debt was later extended to October 31, 2009 and the FDIC also extended the Transaction Account Guarantee portion of the TLGP through December 31, 2010. In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provides for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

Deposit Insurance

The bank subsidiaries deposits are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits and are subject to deposit insurance assessments designed to tie what banks pay for deposit insurance more closely to the risks they pose. The Banks have prepaid their quarterly deposit insurance assessments for 2012 pursuant to applicable FDIC regulations. In February 2011, the FDIC approved new rules to, among other things, change the assessment base from one based on domestic deposits (as it has been since 1935) to one based on assets (average consolidated total assets minus average tangible equity). Since the new assessment base is larger than the base used under prior regulations, the rules also lower assessment rates, so that the total amount of revenue collected by the FDIC from the industry is not significantly altered. The rules also revise the deposit insurance assessment system for large financial institutions, defined as institutions with at least $10 billion in assets. The rules revise the assessment rate schedule, effective April 1, 2011, and adopt additional rate schedules that will go into effect when the Deposit Insurance Fund reserve ratio reaches various milestones. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15 percent to 1.35 percent of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds.

Insurance of Deposit Accounts. The EESA included a provision for a temporary increase from $100,000 to $250,000 per depositor in deposit insurance effective October 3, 2008 through December 31, 2010. On May 20, 2009, the temporary increase was extended through December 31, 2013. The Dodd-Frank Act permanently raises the current standard maximum deposit insurance amount to $250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. EESA also temporarily raised the limit on federal deposit insurance coverage to an unlimited amount for non-interest or low-interest bearing demand deposits. Pursuant to the Dodd-Frank Act, unlimited coverage for non-interest transaction accounts will continue until December 31, 2012.

Recent Legislation

Dodd-Frank Wall Street Reform and Consumer Protection Act. As a result of the recent financial crises, on July 21, 2010 the Dodd-Frank Act was signed into law. The Dodd-Frank Act is expected to have a broad impact on the financial services industry, including significant regulatory and compliance changes and changes to corporate governance matters affecting public companies. Not all of the regulations implementing these changes have been promulgated. As a result, the Company cannot determine the full impact on its business and operations at this time. However, the Dodd-Frank Act is expected to have a significant impact on the Company s business operations as its provisions take effect. Some of the provisions of the Dodd-Frank Act that may impact the Company s business are summarized below.

Holding Company Capital Requirements. Under the Dodd-Frank Act, trust preferred securities will generally be excluded from the Tier 1 capital of a Bank holding company between $500 million and $15 billion in assets unless such securities were issued prior to May 19, 2010.

Corporate Governance. The Dodd-Frank Act requires publicly traded companies to provide their shareholders with 1) a non-binding shareholder vote on executive compensation; 2) a non-binding shareholder vote on the frequency of such vote; 3) disclosure of golden parachute arrangements in connection with specified change in control transactions; and 4) a non-binding shareholder vote on golden parachute arrangements in connection with these change in control transactions. Except with respect to smaller reporting companies and participants in the CPP, the new rules applied to proxy statements relating to annual meetings of shareholders held after January 20, 2011. Smaller reporting companies, those with a public float of less than $75 million, are required to include the non-binding shareholder votes on executive compensation and the frequency thereof in proxy statements relating to annual meetings occurring on or after January 21, 2013.

Prohibition Against Charter Conversions of Troubled Institutions. The Dodd-Frank Act generally prohibits a depository institution from converting from a state to federal charter, or vice versa, while it is the subject to an enforcement action unless the depository institution seeks prior approval from its regulator and complies with specified procedures to ensure compliance with the enforcement action.

Debit Card Interchange Fees. The Dodd-Frank Act requires the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction to be reasonable and proportional to the cost incurred by the issuer. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks.

Bureau of Consumer Financial Protection. The Dodd-Frank Act creates a new, independent federal agency called the Bureau of Consumer Financial Protection (CFPB) within the Federal Reserve Board. The CFPB has broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws applicable to banks and thrifts with greater than $10 billion in assets. Smaller institutions are subject to certain rules promulgated by the CFPB but will continue to be examined and supervised by their federal banking regulators for compliance purposes.

Repeal of Demand Deposit Interest Prohibition. The Dodd-Frank Act repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

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Overdrafts. On November 17, 2009, the Board of Governors of the Federal Reserve System promulgated the Electronic Fund Transfer rule with an effective date of January 19, 2010 and a mandatory compliance date of July 1, 2010. The rule, which applies to all FDIC-regulated institutions, prohibits financial institutions from assessing an overdraft fee for paying automated teller machine (ATM) and one-time point-of-sale debit card transactions, unless the customer affirmatively opts in to the overdraft service for those types of transactions. The opt-in provision establishes requirements for clear disclosure of fees and terms of overdraft services for ATM and one-time debit card transactions. Since a percentage of the Company s service charges on deposits are in the form of overdraft fees on point-of-sale transactions, this could have an adverse impact on the Company s non-interest income.

Proposed Legislation

General. Proposed legislation is introduced in almost every legislative session. Such legislation could dramatically affect the regulation of the banking industry. The Company cannot predict if any such legislation will be adopted or if it is adopted how it would affect the business of the Company or the Banks. Past history has demonstrated that new legislation or changes to existing laws or regulations usually results in a greater compliance burden and, therefore, generally increases the cost of doing business.

Possible Changes to Capital Requirements Resulting from Basel III. Basel III updates and revises significantly the current international bank capital accords (so-called Basel I and Basel II). Basel III is intended to be implemented by participating countries for large, internationally active banks. However, standards consistent with Basel III will be formally implemented in the United States through a series of regulations, some of which may apply to other banks. Among other things, Basel III creates Tier 1 common equity, a new measure of regulatory capital closer to pure tangible common equity than the present Tier 1 definition. Basel III also increases minimum capital ratios. For the new concept of Tier 1 common equity, the minimum ratio is 4.5 percent of risk-weighted assets. For Tier 1 and total capital the Basel III minimums are 6 percent and 8 percent respectively. Capital buffers comprising common equity equal to 2.5 percent of risk-weighted assets are added to each of these minimums to enable banks to absorb losses during a stressed period while remaining above their regulatory minimum ratios. The Company cannot predict the extent to which Basel III will be adopted or, if adopted, how it will apply to the Company or the Banks.

Effects of Government Monetary Policy

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

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Item 1A. Risk Factors

The Company and its eleven independent wholly-owned 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 continued challenging economic environment could have a material adverse effect on the Company s future results of operations or market price of stock.

The national economy, and the financial services sector in particular, are still facing significant challenges. Substantially all of the Company s loans are to businesses and individuals in Montana, Idaho, Wyoming, Utah, Colorado and Washington, markets facing many of the same challenges as the national economy, including elevated unemployment and declines in commercial and residential real estate. Although some economic indicators are improving both nationally and in the Company s markets, unemployment remains high and there remains substantial uncertainty regarding when and how strongly a sustained economic recovery will occur, and whether there will be another recession. These economic conditions can cause borrowers to be unable to pay their loans. The inability of borrowers to repay loans can erode earnings by reducing net interest income and by requiring the Company to add to its allowance for loan and lease losses. While the Company cannot accurately predict how long these conditions may exist, the challenging economy could continue to present risks for some time for the industry and Company. A further deterioration in economic conditions in the nation as a whole or in the Company s markets could result in the following consequences, any of which could have an adverse impact, which may be material, on the Company s business, financial condition, results of operations and prospects, and could also cause the market price of the Company s stock to decline:

- 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 and increasing the potential severity of loss in the event of loan defaults;
- 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 allowance for loan and lease losses (ALLL or allowance) in an amount that it believes is adequate to provide for losses in the loan portfolio. While the Company strives to carefully manage and monitor credit quality and to identify loans that may become non-performing, at any time there are loans included in the portfolio that will result in losses, but that have not been identified as non-performing or potential problem loans. With respect to real estate loans and property taken in satisfaction of such loans (other real estate owned or OREO), the Company can be required to recognize significant declines in the value of the underlying real estate collateral or OREO quite suddenly as values are updated through appraisals and evaluations performed in the normal course of monitoring the credit quality of the loans. There are many factors that can cause the value of real estate to decline, including declines in the general real estate market, changes in methodology applied by appraisers, and/or using a different appraiser than was used for the prior appraisal or evaluation. The Company s ability to recover on real estate loans by selling or disposing of the underlying real estate collateral is adversely impacted by declining values, which increases the likelihood the Company will suffer losses on defaulted loans beyond the amounts provided for in the ALLL. This, in turn, could require material increases in the Company s provision for loan losses and ALLL. By closely monitoring credit quality, the Company attempts to identify deteriorating loans before they become non-performing assets and adjust the ALLL accordingly. However, because future events are uncertain, and if difficult economic conditions continue or worsen, there may be loans that deteriorate to a non-performing status in an accelerated time frame. As a result, future additions to the ALLL may be necessary. Because the loan portfolio contains a number of loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in non-performing loans, requiring an increase to the ALLL. Additionally, future significant additions to the ALLL may be required based on changes in the mix of loans comprising the portfolio, changes in the financial condition of borrowers, which may result from changes in economic conditions, or changes in the assumptions used in determining the ALLL. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review the

Company s loan portfolio and the adequacy of the ALLL. These regulatory agencies may require the Company to recognize further loan loss provisions or charge-offs based upon their judgments, which may be different from the Company s judgments. Any increase in the ALLL would have an adverse effect, which could be material, on the Company s financial condition and results of operations.

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

The Company has a high degree of concentration in loans secured by real estate. A sluggish recovery, or a continuation of the downturn in the economic conditions or real estate values of the Company s market areas, could adversely impact borrowers ability to repay loans secured by real estate and the value of real estate collateral, thereby increasing the credit risk associated with the loan portfolio. The Company s ability to recover on these loans by selling or disposing of the underlying real estate collateral is adversely impacted by declining real estate values, which increases the likelihood that the Company will suffer losses on defaulted loans secured by real estate beyond the amounts provided for in the ALLL. This, in turn, could require material increases in the ALLL which would adversely affect the Company s financial condition and results of operations, perhaps materially.

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

The ability to pay dividends on the Company s common stock depends on a variety of factors. The Company paid dividends of $0.13 per share in each quarter of 2009, 2010 and 2011. The Company may not be able to continue paying quarterly dividends commensurate with recent levels. In that regard, the Federal Reserve now is requiring the Company to provide prior written notice and related information for staff review before declaring or paying dividends. In addition, current guidance from the Federal Reserve provides, among other things, that dividends per share generally should not exceed earnings per share. As a result, future dividends will generally depend on the sufficiency of earnings. Furthermore, the Company s ability to pay dividends depends on the amount of dividends paid to the Company by its subsidiaries, which is also subject to government regulation, oversight and review. In addition, the ability of some of the bank subsidiaries to pay dividends to the Company is subject to prior regulatory approval.

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

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

The FDIC has increased insurance premiums to rebuild and maintain the federal Deposit Insurance Fund and there may be additional future premium increases and special assessments.

In 2009, the FDIC imposed a special deposit insurance assessment of five basis points on all insured institutions, and also required insured institutions to prepay estimated quarterly risk-based assessments for periods through 2012.

The Dodd-Frank Act established 1.35 percent as the minimum Deposit Insurance Fund reserve ratio. The FDIC has determined that the fund reserve ratio should be 2.0 percent and has adopted a plan under which it will meet the statutory minimum fund reserve ratio of 1.35 percent by the statutory deadline of September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum fund reserve ratio to 1.35 percent from the former statutory minimum of 1.15 percent. The FDIC has not announced how it will implement this offset or how larger institutions will be affected by it.

Despite the FDIC s actions to restore the Deposit Insurance Fund, the fund will suffer additional losses in the future due to failures of insured institutions. There could be additional significant deposit insurance premium increases, special assessments or prepayments in order to restore the insurance fund s reserve ratio. Any significant premium increases or special assessments could have a material adverse effect on the Company s financial condition and results of operations.

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

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

non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, which could have a material adverse impact on results of operations and financial condition.

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

Non-performing assets (which include OREO) adversely affect the Company s net income and financial condition in various ways. The Company does not record interest income on non-accrual loans or OREO, thereby adversely affecting its income. When the Company takes collateral in foreclosures and similar proceedings, it is required to mark the related asset to the then fair value of the collateral, less estimated cost to sell, which may result in a charge-off of the value of the asset and lead the Company to increase the provision for loan losses. An increase in the level of non-performing assets also increases the Company s risk profile and may impact the capital levels its regulators believe are appropriate in light of such risks. Continued decreases in the value of these assets, or the underlying collateral, or in these borrowers performance or financial condition, whether or not due to economic and market conditions beyond the Company s control, could adversely affect the Company s business, results of operations and financial condition, perhaps materially. In addition to the carrying costs to maintain OREO, the resolution of non-performing assets increases the Company s loan administration costs generally, and requires significant commitments of time from management and the Company s directors, which reduces the time they have to focus on profitably growing the Company s business. The Company may experience further increases in non-performing assets in the future.

A 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 credit ratings, lack of market liquidity and other economic conditions. An investment security is impaired if the fair value of the security is less than the carrying value. When a security is impaired, the Company determines whether the impairment is temporary or other-than-temporary. If an impairment is determined to be other-than temporary, an impairment loss is recognized by reducing the amortized cost only for the credit loss associated with the other-than-temporary loss with a corresponding charge to earnings for a like amount. Any such impairment charge would have an adverse effect, which could be material, on the Company s results of operations and financial condition.

With relatively soft loan demand and increased market liquidity, the investment securities portfolio has grown significantly and represented 44 percent of total assets at December 31, 2011. While the Company believes that the term of such investments has been kept relatively short, the Company is subject to interest rate risk exposure if rates were to increase sharply. Further, the change in the mix of the Company s assets to more investment securities presents a different type of asset quality risk than the loan portfolio. While the Company believes a relatively conservative approach has been applied to the investment portfolio, there is always potential loss exposure under changing economic conditions. The Company s investment securities portfolio has increased and now constitutes a much larger portion of assets with any attendant risks of such investments.

Recent and/or future U.S. credit downgrades or changes in outlook by major credit rating agencies may have an adverse effect on financial markets, including financial institutions and the financial industry.

On August 5, 2011, Standard and Poor s downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard and Poor s downgraded from AAA to AA+ the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term United States debt. It is difficult to predict the effect of these actions, or any future downgrades or changes in outlook by Standard & Poor s or either of the other two major credit rating agencies. However, these events could impact the trading market for U.S. government securities, including U.S. agency securities, and the securities markets more broadly, and consequently could impact the value and liquidity of financial assets, including assets in the Company s investment portfolio. These actions could also create broader financial turmoil and uncertainty, which may negatively affect the global banking system and limit the availability of funding, including borrowing under securities sold under agreements to repurchase (repurchase agreements), at reasonable terms. In turn, this could have a material adverse effect on the Company s liquidity, financial condition and results of operations.

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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.

Interest rate swaps expose the Company to certain risks, and may not be effective in mitigating exposure to changes in interest rates.

Commencing in the fourth quarter of 2011, the Company entered into interest rate swap agreements in order to manage a portion of the risk to interest rate volatility. The Company anticipates that additional interest rate swaps may be entered into in the future. These swap agreements involve other risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, leaving the Company vulnerable to interest rate movements. There can be no assurance that these arrangements will be effective in reducing the Company s exposure to changes in interest rates.

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

Accounting standards require the Company account for acquisitions using the acquisition method of accounting. Under acquisition accounting, if the purchase price of an acquired company exceeds the fair value of its net assets, the excess is carried on the acquirer s balance sheet as goodwill. In accordance with accounting principles generally accepted in the United States of America, goodwill is not amortized but rather is evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. The Company has incurred an impairment of goodwill of $40.2 million ($32.6 million after-tax) during the third quarter of 2011. The Company continues to maintain $106 million in goodwill on its balance sheet and there can be no assurance that future evaluations of goodwill will not result in findings of additional impairment and write-downs, which could be material. While a non-cash item, additional impairment of goodwill could have a material adverse effect on the Company s business, financial condition and results of operations. Furthermore, additional impairment of goodwill could subject the Company to regulatory limitations, including the ability to pay dividends on its common stock.

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

The Company has in recent years acquired other financial institutions. The Company may in the future engage in selected acquisitions of additional financial institutions, including transactions that may receive assistance from the FDIC, although the Company may not be able to successfully complete any such transactions. There are risks associated with any such acquisitions that could adversely affect profitability and other performance measures. These risks include, among other things, incorrectly assessing the asset quality of a financial institution being acquired, encountering greater than anticipated cost of integrating acquired businesses into the Company s operations, and being unable to profitably deploy funds acquired in an acquisition. The Company may not be able to continue to grow through acquisitions, and if it does, there is a risk of negative impacts of such acquisitions on the Company s operating results and financial condition.

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

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

A tightening of the credit markets and the inability to obtain or retain adequate funds for continued loan growth at an acceptable cost may negatively affect the Company s asset growth and liquidity position and, therefore, earnings capability. In addition to core deposit growth, maturity of investment securities and loan payments, the Company also relies on alternative funding sources through correspondent banking, and borrowing lines with the Federal Reserve Bank and the 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.

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

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

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

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

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

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

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

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

In that regard, sweeping financial regulatory reform legislation was enacted in July 2010. Among other provisions, the new legislation 1) creates a new Bureau of Consumer Financial Protection with broad powers to regulate consumer financial products such as credit cards and mortgages; 2) creates a Financial Stability Oversight Council comprised of the heads of other regulatory agencies; 3) will lead to new capital requirements from federal banking regulatory agencies; 4) places new limits on electronic debt card interchange fees; and 5) requires the SEC and national stock exchanges to adopt significant new corporate governance and executive compensation reforms. The new legislation and regulations are expected to increase the overall costs of regulatory compliance.

Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and bank holding companies in the performance of their supervisory and enforcement duties. Recently, these powers have been utilized more frequently due to the challenging national, regional and local economic conditions. The exercise of regulatory authority may have a negative impact on the Company s financial condition and results of operations. Additionally, the Company s business is affected significantly by the fiscal and monetary policies of the U.S. federal government and its agencies, including the Federal Reserve Board.

The Company cannot accurately predict the full effects of recent legislation or the various other governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets, on the Company and on its bank 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 the Company s common stock.

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The Company has various anti-takeover measures that could impede a takeover.

The Company s articles of incorporation include certain provisions that could make more difficult the acquisition of the Company by means of a tender offer, a proxy contest, merger or otherwise. These provisions include a requirement that any Business Combination (as defined in the articles of incorporation) be approved by at least 80 percent of the voting power of the then-outstanding shares, unless it is either approved by the Board of Directors or certain price and procedural requirements are satisfied. In addition, the authorization of preferred stock, which is intended primarily as a financing tool and not as a defensive measure against takeovers, may potentially be used by management to make more difficult uninvited attempts to acquire control of the Company. These provisions may have the effect of lengthening the time required for a person to acquire control of the Company through a tender offer, proxy contest or otherwise, and may deter any potentially unfriendly offers or other efforts to obtain control of the Company. This could deprive the Company s shareholders of opportunities to realize a premium for their Glacier Bancorp, Inc. common stock, even in circumstances where such action is favored by a majority of the Company s shareholders.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

At December 31, 2011, the Company owned 84 of its 106 offices. The remaining 22 offices were leased and include 5 offices in Montana, 12 offices in Idaho, 2 offices in Wyoming, 1 office in Colorado, 1 office in Utah, and 1 office in Washington. Including its headquarters, the aggregate book value of Company-owned offices is $119 million. The following schedule provides property information for the Company as of December 31, 2011.

(Dollars in thousands)	Properties Leased	Properties Owned	Net Book Value
Glacier	2	15	$ 22,879
Mountain West	14	14	19,136
First Security	2	11	13,098
Western	1	7	14,439
1st Bank	1	11	10,313
Valley		6	7,749
Big Sky		5	9,848
First Bank-WY	1	3	6,360
Citizens		6	6,262
First Bank-MT		3	750
San Juans	1	2	2,949
Parent		1	4,776
	22	84	$ 118,559

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

For additional information regarding the Company s premises and equipment and lease obligations, see Notes 5 and 21 to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

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Item 3. Legal Proceedings

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

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s stock trades on the NASDAQ Global Select Market under the symbol: GBCI. The primary market makers during the year are listed below:

Barclays Capital Inc./Le	Credit Suisse Securities USA	D.A. Davidson & Co., Inc.
Deutsche Banc Alex Brown	Instinet, LLC	Knight Capital Americas, L.P.
Latour Trading LLC	Merrill Lynch, Pierce, Fenner	Morgan Stanley & Co. LLC
Octeg, LLC	Penson Financial Services	RBC Capital Markets Corp.
Tradebot Systems, Inc.	UBS Securities LLC	Wedbush Securities Inc.

The market range of high and low closing prices for the Company s common stock for the periods indicated are shown below. As of December 31, 2011, there were approximately 1,473 shareholders of record for the Company s common stock.

	2011		2010	
Quarter	High	Low	High	Low
First	$ 15.94	$ 14.09	$ 15.94	$ 13.75
Second	15.29	12.97	18.88	14.67
Third	13.75	9.23	16.73	13.75
Fourth	12.51	9.09	15.76	13.00

The Company paid cash dividends on its common stock of $0.52 per share for the years ended December 31, 2011 and 2010. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality, general economic conditions and regulatory considerations.

On March 22, 2010, the Company completed the common stock offering of 10,291,465 shares generating net proceeds, after underwriter discounts and offering expenses, of $145.5 million.

Unregistered Securities

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

Issuer Stock Purchases

The Company made no stock repurchases during 2011.

Equity Compensation Plan Information

The Company currently maintains the 2005 Employee Stock Incentive Plan which was approved by the shareholders and provides for the issuance of stock-based compensation to officers, other employees and directors. Although the 1994 Director Stock Option Plan and the 1995 Employee Stock Option Plan expired in March 2009 and April 2005, respectively, there are issued options outstanding under both plans that have not been exercised as of December 31, 2011.

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The following table sets forth information regarding outstanding options and shares reserved for future issuance under the following plans as of December 31, 2011:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by the shareholders	1,446,860	$ 19.52	3,722,053

Stock Performance Graph

The following graphs compare the yearly cumulative total return of the Company s common stock over both a five-year and ten-year measurement period with the yearly cumulative total return on the stocks included in 1) the Russell 2000 Index, and 2) the SNL Bank Index comprised of banks or bank holding companies with total assets between $5 billion and $10 billion. Each of the cumulative total returns are computed assuming the reinvestment of dividends at the frequency with which dividends were paid during the applicable years.

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Item 6. Selected Financial Data

The following financial data of the Company are derived from the Company s historical audited financial statements and related notes. The information set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes contained elsewhere in this report.

			December 31,			Compounded Annual Growth Rate	
(Dollars in thousands, except per share data)	2011	2010	2009	2008	2007	1-Year 2011/2010	5-Year 2011/2007
Summary of financial condition							
Total assets	$ 7,187,906	6,759,287	6,191,795	5,553,970	4,817,330	6.3%	10.0%
Investment securities, available-for-sale	3,126,743	2,461,119	1,506,394	990,092	700,324	27.0%	30.5%
Loans receivable, net	3,328,619	3,612,182	3,920,988	3,998,478	3,516,999	(7.9%)	1.2%
Allowance for loan and lease losses	(137,516)	(137,107)	(142,927)	(76,739)	(54,413)	0.3%	22.8%
Goodwill and intangibles	114,384	157,016	160,196	159,765	154,264	(27.2%)	(4.6%)
Deposits	4,821,213	4,521,902	4,100,152	3,262,475	3,184,478	6.6%	8.5%
Federal Home Loan Bank advances	1,069,046	965,141	790,367	338,456	538,949	10.8%	28.3%
Securities sold under agreements to repurchase and other borrowed funds	268,638	269,408	451,251	1,110,731	401,621	(0.3%)	(4.5%)
Stockholders equity	850,227	838,204	685,890	676,940	528,576	1.4%	13.3%
Equity per share[1]	11.82	11.66	11.13	11.04	9.85	1.4%	6.3%
Equity as a percentage of total assets	11.83%	12.40%	11.08%	12.19%	10.97%	(4.6%)	3.0%

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(Dollars in thousands, except per share data)	Years ended December 31, 2011	2010	2009	2008	2007	Compounded Annual Growth Rate 1-Year 2011/2010	5-Year 2011/2007
Summary of operations							
Interest income	$ 280,109	288,402	302,494	302,985	304,760	(2.9%)	2.0%
Interest expense	44,494	53,634	57,167	90,372	121,291	(17.0%)	(14.1%)
Net interest income	235,615	234,768	245,327	212,613	183,469	0.4%	8.3%
Provision for loan losses	64,500	84,693	124,618	28,480	6,680	(23.8%)	65.5%
Non-interest income	78,199	87,546	86,474	61,034	64,818	(10.7%)	8.6%
Non-interest expense [2]	191,965	187,948	168,818	145,909	137,917	2.1%	11.3%
Income before income taxes [2]	57,349	49,673	38,365	99,258	103,690	15.5%	(9.1%)
Income tax (benefit) expense [2]	7,265	7,343	3,991	33,601	35,087	(1.1%)	(25.3%)
Net income [2]	50,084	42,330	34,374	65,657	68,603	18.3%	(3.9%)
Basic earnings per share [1, 2]	0.70	0.61	0.56	1.20	1.29	14.8%	(10.7%)
Diluted earnings per share [1, 2]	0.70	0.61	0.56	1.19	1.28	14.8%	(10.4%)
Dividends declared per share [1]	0.52	0.52	0.52	0.52	0.50	0.0%	2.9%

(Dollars in thousands)	At or for the Years ended December 31, 2011	2010	2009	2008	2007
Ratios					
Return on average assets [2]	0.72%	0.67%	0.60%	1.31%	1.49%
Return on average equity [2]	5.78%	5.18%	4.97%	11.63%	13.82%
Dividend payout ratio [2]	74.29%	85.25%	92.86%	43.33%	38.76%
Average equity to average asset ratio	12.39%	12.96%	12.16%	11.23%	10.78%
Net interest margin on average earning assets (tax equivalent)	3.89%	4.21%	4.82%	4.70%	4.50%
Efficiency ratio [3]	49.76%	49.88%	46.44%	49.68%	53.24%
Allowance for loan and lease losses as a percent of loans	3.97%	3.66%	3.52%	1.88%	1.52%
Allowance for loan and lease losses as a percent of nonperforming loans	102%	70%	70%	105%	484%
Other data					
Loans originated and acquired	$ 1,650,418	1,935,311	2,430,967	2,456,749	2,576,260
Number of full time equivalent employees	1,653	1,674	1,643	1,571	1,480
Number of locations	106	105	106	101	97

[1] Revised for stock splits and dividends.

[2] Excludes goodwill impairment charge of $32.6 million ($40.2 million pre-tax). For additional information on the goodwill impairment charge see the Non-GAAP Financial Measures section below.

[3] Non-interest expense before other real estate owned expenses, core deposit intangibles amortization, goodwill impairment charges, and non-recurring expense items as a percentage of fully taxable equivalent net interest income and non-interest income, excluding gains or losses on sale of investments, other real estate owned income, and non-recurring income items.

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Non-GAAP Financial Measures

In addition to the results presented in accordance with accounting principles generally accepted in the United States of America (GAAP), this Form 10-K contains certain non-GAAP financial measures. The Company believes that providing these non-GAAP financial measures provides investors with information useful in understanding the Company s financial performance, performance trends, and financial position. While the Company uses these non-GAAP measures in its analysis of the Company s performance, this information should not be considered an alternative to measurements required by GAAP.

	December 31, 2011		
(Dollars in thousands, except per share data)	GAAP	Goodwill Impairment Charge, Net of Tax	Non-GAAP
Non-interest expense	$ 232,124	(40,159)	191,965
Income before income taxes	$ 17,190	40,159	57,349
Income tax (benefit) expense	$ (281)	7,546	7,265
Net income	$ 17,471	32,613	50,084
Basic earnings per share	$ 0.24	0.46	0.70
Diluted earnings per share	$ 0.24	0.46	0.70
Return on average assets	0.25%	0.47%	0.72%
Return on average equity	2.04%	3.74%	5.78%
Dividend payout ratio	216.67%	-142.38%	74.29%

The reconciling item between the GAAP and non-GAAP financial measures was the third quarter of 2011 goodwill impairment charge (net of tax) of $32.6 million.

The goodwill impairment charge was $40.2 million with a tax benefit of $7.6 million which resulted in a goodwill impairment charge (net of tax) of $32.6 million. The tax benefit applied only to the $19.4 million of goodwill associated with taxable acquisitions and was determined based on the Company s marginal income tax rate of 38.9 percent.

The basic and diluted earnings per share reconciling items were determined based on the goodwill impairment charge (net of tax) divided by the weighted average diluted shares of 71,915,073.

The goodwill impairment charge (net of tax) was included in determining earnings for both the GAAP return on average assets and GAAP return on average equity. The average assets used in the GAAP and non-GAAP return on average assets ratios were $6.923 billion and $6.931 billion for the year ended December 31, 2011, respectively. The average equity used in the GAAP and non-GAAP return on average equity ratios were $858 million and $866 million for the year ended December 31, 2011, respectively.

The dividend payout ratio is calculated by dividing dividends declared per share by basic earnings per share. The non-GAAP dividend payout ratio uses the non-GAAP basic earnings per share for calculating the ratio.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to provide a more comprehensive review of the Company s operating results and financial condition than can be obtained from reading the Consolidated Financial Statements alone. The discussion should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in Item 8. Financial Statements and Supplementary Data.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual Report on Form 10-K, or the documents incorporated by reference:

- the risks associated with lending and potential adverse changes of the credit quality of loans in the Company s portfolio, including as a result of declines in the housing and real estate markets in its geographic areas;
- increased loan delinquency rates;
- the risks presented by a continued economic downturn, which could adversely affect credit quality, loan collateral values, other real estate owned values, investment values, liquidity and capital levels, dividends and loan originations;
- changes in market interest rates, which could adversely affect the Company s net interest income and profitability;
- legislative or regulatory changes that adversely affect the Company s business, ability to complete pending or prospective future acquisitions, limit certain sources of revenue, or increase cost of operations;
- costs or difficulties related to the integration of acquisitions;
- the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings and capital;
- reduced demand for banking products and services;
- the risks presented by public stock market volatility, which could adversely affect the market price of our common stock and our ability to raise additional 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 Annual Report on Form 10-K (or documents incorporated by reference, if applicable). The Company does not undertake any obligation to publicly correct or update any forward-looking statement if it later becomes aware that actual results are likely to differ materially from those expressed in such forward-looking statement.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2011 COMPARED TO DECEMBER 31, 2010

Highlights and Overview

Net income for 2011 was $17.5 million, a decrease of $24.9 million from the prior year, and diluted earnings per share for 2011 was $0.24, a decrease of $0.37 per share from the prior year. The decrease in net income during 2011 compared to 2010 resulted from a goodwill impairment charge of $32.6 million ($40.2 million pre-tax) during 2011. For additional information regarding the goodwill impairment charge, see the section captioned Critical Accounting Polices included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. Excluding the goodwill impairment charge, operating income for 2011 was $50.1 million, an increase of $7.8 million, or 18 percent, over the prior year. Diluted operating earnings per share was $0.70, an increase of 15 percent from the $0.61 earned in 2010.

The foremost reason for the increase in operating income was a reduction in the provision for loan losses of $20.2 million. During the year, there was increased pressure on the net interest margin as a percentage of earning assets, on a tax-equivalent basis, which was attributable to a lower yield and volume of loans coupled with an increase in lower yielding investment securities. The net interest margin decreased 32 basis points from 4.21 percent in 2010 to 3.89 percent in 2011. However, the Company worked diligently to maintain net interest income through the purchase of investment securities and the decrease in interest rates on deposits. Net interest income increased $847 thousand, or less than 1 percent, from the prior year.

The Company s loan portfolio decreased from the prior year as a result of continued slowing loan demand, net charged-off loans, and repossession of foreclosed assets. The loan portfolio decreased by $283 million, or 8 percent, from the prior year end. During the year, there was improvement in the credit quality of the loan portfolio from the historically high levels in 2010. Non-performing assets were $213 million at year end, a decrease of $57.1 million, or 21 percent, from the prior year end and primarily the result of a decrease in the non-performing loans which decreased 31 percent from the prior year end.

Consistent with the prior year, the Company purchased investment securities throughout the year to offset the decrease in the loan portfolio. Investment securities, interest bearing deposits and federal funds sold, increased $721 million, or 30 percent, from the prior year end.

Non-interest bearing deposits increased $155 million, or 18 percent, during the year and interest bearing deposits increased by $144 million, or 4 percent, during the year. As a result of the increase in deposits, the Company required less borrowings to fund the investment growth and only increased FHLB advances by $104 million during the year. Tangible stockholders equity increased $54.7 million, or $0.76 per share, during the year and the Company and each of the bank subsidiaries have remained above the well capitalized levels required by regulators.

Looking forward, the Company s future performance will depend on many factors including economic conditions in the markets the Company serves, interest rate changes, increasing competition for deposits and loans, loan quality, and regulatory burden. The Company s goal of its asset and liability management practices is to maintain or increase the level of net interest income within an acceptable level of interest rate risk.

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Financial Condition Analysis

Assets

The following table summarizes the asset balances as of the dates indicated, and the amount and percentage changes from December 31, 2010:

(Dollars in thousands)	December 31, 2011	December 31, 2010	$ Change	% Change
Cash on hand and in banks	$ 104,674	71,465	33,209	46%
Investment securities and interest bearing cash deposits	3,150,101	2,429,473	720,628	30%
Loans receivable				
Residential real estate	516,807	632,877	(116,070)	-18%
Commercial	2,295,927	2,451,091	(155,164)	-6%
Consumer and other	653,401	665,321	(11,920)	-2%
Loans receivable	3,466,135	3,749,289	(283,154)	-8%
Allowance for loan and lease losses	(137,516)	(137,107)	(409)	0%
Loans receivable, net	3,328,619	3,612,182	(283,563)	-8%
Other assets	604,512	646,167	(41,655)	-6%
Total assets	$ 7,187,906	6,759,287	428,619	6%

Investment securities and interest bearing deposits, increased $721 million, or 30 percent, from December 31, 2010. During the year, the Company purchased investment securities to primarily offset the lack of loan growth and to maintain interest income. The investment securities purchased during the current year were predominately U.S. Agency Collateralized Mortgage Obligations (CMO) with short weighted-average-lives and tax-exempt state and local government obligations. Investment securities represent 44 percent of total assets at December 31, 2011 versus 36 percent at December 31, 2010.

At December 31, 2011, the loan portfolio was $3.466 billion, a decrease of $283 million, or 8 percent, from total loans of $3.749 billion at December 31, 2010. Excluding net charge-offs of $64.1 million and loans transferred to OREO of $79.3 million, loans decreased $140 million, or 4 percent, from December 31, 2010. During the year, the largest decrease in dollars was in commercial loans which decreased $155 million, or 6 percent, from December 31, 2010. The largest percentage decrease was in real estate loans which decreased $116 million, or 18 percent, from December 31, 2010. The Company continues to reduce its exposure to land, lot and other construction loans which totaled $381 million as of December 31, 2011 and have decreased $168 million, or 31 percent, since the prior year end. The continued downturn in the economy and resulting lack of loan demand were the primary reasons for the decrease in the loan portfolio.

As a result of the third quarter 2011 goodwill impairment charge (net of tax) of $32.6 million, other assets decreased $41.7 million from December 31, 2010.

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Liabilities

The following table summarizes the liability balances as of the dates indicated, and the amount and percentage changes from December 31, 2010:

(Dollars in thousands)	December 31, 2011	December 31, 2010	$ Change	% Change
Non-interest bearing deposits	$ 1,010,899	855,829	155,070	18%
Interest bearing deposits	3,810,314	3,666,073	144,241	4%
Repurchase agreements	258,643	249,403	9,240	4%
FHLB advances	1,069,046	965,141	103,905	11%
Other borrowed funds	9,995	20,005	(10,010)	-50%
Subordinated debentures	125,275	125,132	143	0%
Other liabilities	53,507	39,500	14,007	35%
Total liabilities	$ 6,337,679	5,921,083	416,596	7%

At December 31, 2011, non-interest bearing deposits of $1.011 billion increased $155 million, or 18 percent, since December 31, 2010. The increase in non-interest bearing deposits during the year was driven by the continued growth in the number of personal and business customers, as well as existing customers retaining cash deposits for liquidity purposes due to the uncertainty in the current economic environment. Interest bearing deposits of $3.810 billion at December 31, 2011 included $170 million of reciprocal deposits (e.g., Certificate of Deposit Account Registry System deposits). Interest bearing deposits increased $144 million, or 4 percent, from the prior year end and included an increase of $31.1 million in wholesale deposits, including reciprocal deposits. These deposit increases have been beneficial to the Company in funding the investment securities portfolio growth at low costs over the prior twelve months.

To fund growth in the investment securities portfolio, the Company s level of borrowings has increased as needed to supplement deposit growth. FHLB advances increased $104 million since December 31, 2010.

Stockholders Equity

The following table summarizes the stockholders equity balances as of the dates indicated, and the amount and percentage changes from December 31, 2010:

Dollars in thousands, except per share data)	December 31, 2011	December 31, 2010	$ Change	% Change
Common equity	$ 816,740	837,676	(20,936)	-2%
Accumulated other comprehensive income	33,487	528	32,959	6242%
Total stockholders equity	850,227	838,204	12,023	1%
Goodwill and core deposit intangible, net	(114,384)	(157,016)	42,632	-27%
Tangible stockholders equity	$ 735,843	681,188	54,655	8%
Stockholders equity to total assets	11.83%	12.40%	-0.57%	-5%
Tangible stockholders equity to total tangible assets	10.40%	10.32%	0.08%	1%
Book value per common share	$ 11.82	11.66	0.16	1%
Tangible book value per common share	$ 10.23	9.47	0.76	8%
Market price per share at end of period	$ 12.03	15.11	(3.08)	-20%

Total stockholders equity and book value per share increased $12.0 million and $0.16 per share from the prior year end. The increase came primarily from accumulated other comprehensive income representing net unrealized gains or losses (net of tax) on the investment securities portfolio which was largely offset by the third quarter 2011 goodwill impairment charge (net of tax) of $32.6 million. Tangible stockholders equity increased $54.7 million, or $0.76 per share since December 31, 2010 resulting in tangible stockholders equity to tangible assets of 10.40 percent and tangible book value per share of $10.23 as of December 31, 2011.

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Results of Operations

Performance Summary

Net income was $17.5 million or $0.24 per share for the year ended December 31, 2011. Excluding the goodwill impairment charge, net operating income for 2011 was $50.1 million versus $42.3 million for the prior year. Diluted operating income per share for 2011 was $0.70 per share, an increase of 15 percent from the prior year earnings per share of $0.61. Net operating income is considered a non-GAAP financial measure and additional information regarding this measurement and reconciliation is provided in Item 6. Selected Financial Data.

Income Summary

The following table summarizes income for the periods indicated, including the amount and percentage changes from December 31, 2010:

	Years ended December 31,			
(Dollars in thousands)	2011	2010	$ Change	% Change
Net interest income				
Interest income	$ 280,109	$ 288,402	$ (8,293)	-3%
Interest expense	44,494	53,634	(9,140)	-17%
Total net interest income	235,615	234,768	847	0%
Non-interest income				
Service charges, loan fees, and other fees	48,113	47,946	167	0%
Gain on sale of loans	21,132	27,233	(6,101)	-22%
Gain on sale of investments	346	4,822	(4,476)	-93%
Other income	8,608	7,545	1,063	14%
Total non-interest income	78,199	87,546	(9,347)	-11%
	$ 313,814	$ 322,314	$ (8,500)	-3%
Net interest margin (tax-equivalent)	3.89%	4.21%		

Net Interest Income

Net interest income for 2011 remained stable compared to 2010. During 2011, interest income decreased $8.3 million, or 3 percent, while interest expense decreased $9.1 million, or 17 percent from 2010. The decrease in interest income from the prior year resulted from the increase in premium amortization coupled with the reduction in loan balances, the combination of which put further pressure on earning asset yields. Interest income also continues to reflect the Company s purchase of a significant amount of investment securities over the course of several quarters at lower yields than the loans they replaced. Interest income included $35.8 million in premium amortization (net of discount accretion) on CMOs which was an increase of $18.1 million from the prior year. This increase was the result of both the increased purchases of CMOs combined with the continued refinance activity. The decrease in interest expense in 2011 was primarily attributable to the rate decreases on interest bearing deposits. The funding cost for 2011 was 87 basis points compared to 116 basis points for 2010.

The net interest margin decreased 32 basis points from 4.21 percent for 2010 to 3.89 for 2011. The reduction was attributable to a lower yield and volume of loans coupled with an increase in lower yielding investment securities and higher CMO premium amortization. The premium amortization in 2011 accounted for a 56 basis point reduction in the net interest margin compared to a 30 basis point reduction in the net interest margin for the same period last year.

Non-interest Income

Non-interest income of $78.2 million for 2011 decreased $9.3 million, or 11 percent, over non-interest income of $87.5 million for 2010. Gain on sale of loans for 2011 decreased $6.1 million, or 22 percent, from 2010 due to a significant reduction in refinance activity. Excluding the prior year $2.0 million gain on the sale of merchant card servicing portfolio, other income for 2011 increased $3.1 million, or 56 percent, over 2010 of which $1.7 million was from debit card income and $1.3 million was from the combination of operating income from OREO and gain on sale of OREO.

Non-interest Expense

The following table summarizes non-interest expense for the periods indicated, including the amount and percentage changes from December 31, 2010:

(Dollars in thousands)	Years ended December 31, 2011	2010	$ Change	% Change
Compensation, employee benefits and related expense	$ 85,691	$ 87,728	$ (2,037)	-2%
Occupancy and equipment expense	23,599	24,261	(662)	-3%
Advertising and promotions	6,469	6,831	(362)	-5%
Outsourced data processing expense	3,153	3,057	96	3%
Other real estate owned expense	27,255	22,193	5,062	23%
Federal Deposit Insurance Corporation premiums	8,169	9,121	(952)	-10%
Core deposit intangibles amortization	2,473	3,180	(707)	-22%
Other expense	35,156	31,577	3,579	11%
Total non-interest expense before goodwill impairment charge	191,965	187,948	4,017	2%
Goodwill impairment charge	40,159		40,159	n/m
Total non-interest expense	$ 232,124	$ 187,948	$ 44,176	24%

Excluding the goodwill impairment charge, non-interest expense for 2011 increased by $4.0 million, or 2 percent, from 2010. Compensation and employee benefits for 2011 decreased $2.0 million, or 2 percent, and was the result of the reduction in full time equivalent employees. Occupancy and equipment expense decreased $662 thousand, or 3 percent, from the prior year. OREO expense of $27.3 million increased $5.1 million, or 23 percent, from the prior year. The OREO expense for 2011 included $5.8 million of operating expenses, $16.3 million of fair value write-downs, and $5.2 million of loss on sale of OREO. FDIC premium expense decreased $952 thousand, or 10 percent, from the prior year as a result of a change in the FDIC assessment calculation. Other expense increased $3.6 million, or 11 percent, from the prior year and was primarily driven by increases in debit card expenses and expenses associated with New Markets Tax Credits investments.

Efficiency Ratio

The Company calculates the efficiency ratio as non-interest expense before other real estate owned expenses, core deposit intangibles amortization, goodwill impairment charges, and non-recurring expense items as a percentage of fully taxable equivalent net interest income and non-interest income, excluding gains or losses on sale of investments, other real estate owned income, and non-recurring income items. The efficiency ratio was 50 percent for both 2011 and 2010. There was a notable decrease in gain on sale of loans for 2011 compared to 2010 as refinance activity slowed during 2011. The decrease in gain on sale of loans was offset by increases in investment security income.

Provision for Loan Losses

(Dollars in thousands)	Provision for Loan Losses	Net Charge-Offs	ALLL as a Percent of Loans	Accruing Loans 30-89 Days Past Due as a Percent of Loans	Non-Performing Assets to Total Subsidiary Assets
Q4 2011	$ 8,675	9,252	3.97%	1.42%	2.92%
Q3 2011	17,175	18,877	3.92%	0.60%	3.49%
Q2 2011	19,150	20,184	3.88%	1.14%	3.68%
Q1 2011	19,500	15,778	3.86%	1.44%	3.78%
Q4 2010	27,375	24,525	3.66%	1.21%	3.91%
Q3 2010	19,162	26,570	3.47%	1.06%	4.03%
Q2 2010	17,246	19,181	3.58%	0.92%	4.01%

Q1 2010	20,910	20,237	3.58%	1.53%	4.19%

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The Company provisioned slightly more than the amount of net charged-off loans during 2011. The provision for loan losses was $64.5 million for 2011, a decrease of $20.2 million, or 24 percent, from the prior year. Net charged-off loans during 2011 was $64.1 million, a decrease of $26.4 million from 2010. The largest category of net charge-offs was in land, lot and other construction loans which had net charge-offs of $31.3 million, or 49 percent of total net charged-off loans.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF THE RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2010 COMPARED TO DECEMBER 31, 2009

Income Summary

The following table summarizes income for the periods indicated, including the amount and percentage changes from December 31, 2009:

	Years ended December 31,			
(Dollars in thousands)	2010	2009	$ Change	% Change
Net interest income				
Interest income	$ 288,402	$ 302,494	$ (14,092)	-5%
Interest expense	53,634	57,167	(3,533)	-6%
Total net interest income	234,768	245,327	(10,559)	-4%
Non-interest income				
Service charges, loan fees, and other fees	47,946	45,871	2,075	5%
Gain on sale of loans	27,233	26,923	310	1%
Gain on sale of investments	4,822	5,995	(1,173)	-20%
Other income	7,545	7,685	(140)	-2%
Total non-interest income	87,546	86,474	1,072	1%
	$ 322,314	$ 331,801	$ (9,487)	-3%
Net interest margin (tax-equivalent)	4.21%	4.82%		

Net Interest Income

Net interest income for 2010 decreased $10.6 million, or 4 percent, over 2009. Total interest income decreased $14 million, or 5 percent, while total interest expense decreased $3.5 million, or 6 percent. The net interest margin as a percentage of earning assets, on a tax-equivalent basis, decreased 61 basis points from 4.82 percent for 2009 to 4.21 percent for 2010, such decrease including a 6 basis points reduction from the reversal of interest on non-accrual loans. The decrease in lower yield and lower volume of loans coupled with an increase in lower yielding investment securities put pressure on both interest income and the net interest margin.

Non-interest Income

Non-interest income increased $1.0 million in 2010 over the same period in 2009. Fee income for 2010 increased $2.1 million, or 5 percent, compared to 2009 primarily from an increase in debit card income. Gain on sale of loans remained at historical highs of $27.2 million for 2010, which was an increase of $310 thousand, or 1 percent, over 2009. Included in 2010 other income was $2.0 million in one-time gains on merchant card servicing portfolios and included in 2009 other income was $3.5 million in a one-time bargain purchase gain from the acquisition of First Bank-WY. Excluding one-time gains, other income increased $1.3 million over the same period in 2009.

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Non-interest Expense

The following table summarizes non-interest expense for the periods indicated, including the amount and percentage changes from December 31, 2009:

(Dollars in thousands)	Years ended December 31, 2010	2009	$ Change	% Change
Compensation, employee benefits and related expense	$ 87,728	$ 84,965	$ 2,763	3%
Occupancy and equipment expense	24,261	23,471	790	3%
Advertising and promotions	6,831	6,477	354	5%
Outsourced data processing expense	3,057	3,031	26	1%
Other real estate owned expense	22,193	9,092	13,101	144%
Federal Deposit Insurance Corporation premiums	9,121	8,639	482	6%
Core deposit intangibles amortization	3,180	3,116	64	2%
Other expense	31,577	30,027	1,550	5%
Total non-interest expense	$ 187,948	$ 168,818	$ 19,130	11%

Non-interest expense for 2010 increased by $19.1 million, or 11 percent, from 2009. Compensation and employee benefits increased $2.8 million, or 3 percent, from 2009 which relates to the increase in full-time equivalent employees including the addition of First Bank-WY employees in October 2009. Occupancy and equipment expense increased $790 thousand, or 3 percent, from 2009. Advertising and promotion expense increased by $354 thousand, or 5 percent, from 2009. The primary category that saw much higher expense was OREO which increased $13.1 million, or 144 percent, from 2009. OREO expenses of $22.2 million for 2010 included $5.1 million of operating expenses, $10.4 million of fair value write-downs, and $6.7 million of loss on sale of OREO. FDIC premiums increased $482 thousand, or 6 percent, from 2009 which included a second quarter 2010 special assessment of $2.5 million.

Provision for Loan Losses

The provision for loan losses was $84.7 million for 2010, a decrease of $39.9 million, or 32 percent, from the same period in 2009. Net charged-off loans during the year ended December 31, 2010 was $90.5 million, an increase of $32.1 million from the same period in 2009.

ADDITIONAL MANAGEMENT S DISCUSSION AND ANALYSIS

Lending Activity and Practices

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

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The following table summarizes the Company s loan portfolio as of the dates indicated:

(Dollars in thousands)	December 31, 2011 Amount	December 31, 2011 Percent	December 31, 2010 Amount	December 31, 2010 Percent	December 31, 2009 Amount	December 31, 2009 Percent	December 31, 2008 Amount	December 31, 2008 Percent	December 31, 2007 Amount	December 31, 2007 Percent
Residential real estate loans	$ 516,807	15.53%	$ 632,877	17.52%	$ 743,147	18.95%	$ 783,399	19.59%	$ 685,731	19.50%
Commercial loans										
Real estate	1,672,059	50.23%	1,796,503	49.73%	1,894,690	48.33%	1,930,849	48.29%	1,611,178	45.81%
Other commercial	623,868	18.74%	654,588	18.12%	724,579	18.48%	644,980	16.13%	636,125	18.09%
Total	2,295,927	68.97%	2,451,091	67.85%	2,619,269	66.81%	2,575,829	64.42%	2,247,303	63.90%
Consumer and other loans										
Home equity	440,569	13.24%	483,137	13.38%	501,866	12.80%	507,839	12.70%	432,002	12.28%
Other consumer	212,832	6.39%	182,184	5.04%	199,633	5.09%	208,150	5.21%	206,376	5.87%
Total	653,401	19.63%	665,321	18.42%	701,499	17.89%	715,989	17.91%	638,378	18.15%
Loans receivable	3,466,135	104.13%	3,749,289	103.79%	4,063,915	103.65%	4,075,217	101.92%	3,571,412	101.55%
Allowance for loan and lease losses	(137,516)	-4.13%	(137,107)	-3.79%	(142,927)	-3.65%	(76,739)	-1.92%	(54,413)	-1.55%
Loans receivable, net	$ 3,328,619	100.00%	$ 3,612,182	100.00%	$ 3,920,988	100.00%	$ 3,998,478	100.00%	$ 3,516,999	100.00%

The stated maturities or first repricing term (if applicable) for the loan portfolio at December 31, 2011 was as follows:

(Dollars in thousands)	Residential Real Estate	Commercial	Consumer and Other	Totals
Variable rate maturing or repricing in				
One year or less	$ 189,798	779,936	271,402	1,241,136
One to five years	119,202	763,623	28,873	911,698
Thereafter	9,027	118,311	4,860	132,198
Fixed rate maturing in				
One year or less	104,202	236,993	124,005	465,200
One to five years	80,371	280,331	204,284	564,986
Thereafter	14,207	116,733	19,977	150,917
Totals	$ 516,807	2,295,927	653,401	3,466,135

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

	Loans Receivable by Bank			
(Dollars in thousands)	Balance 12/31/11	Balance 12/31/10	$ Change	% Change
Glacier	$ 797,530	866,097	(68,567)	-8%
Mountain West	707,442	821,135	(113,693)	-14%
First Security	575,254	571,925	3,329	1%
Western	272,681	305,977	(33,296)	-11%
1st Bank	243,216	266,505	(23,289)	-9%
Valley	195,395	183,003	12,392	7%
Big Sky	229,640	249,593	(19,953)	-8%
First Bank-WY	130,766	143,224	(12,458)	-9%
Citizens	166,777	168,972	(2,195)	-1%
First Bank-MT	112,390	109,310	3,080	3%
San Juans	135,516	143,574	(8,058)	-6%
Eliminations and other	(5,015)	(3,813)	(1,202)	32%
Loans held for sale	(95,457)	(76,213)	(19,244)	25%
Total	$ 3,466,135	3,749,289	(283,154)	-8%

	Land, Lot and Other Construction Loans by Bank			
(Dollars in thousands)	Balance 12/31/11	Balance 12/31/10	$ Change	% Change
Glacier	$ 101,429	148,319	(46,890)	-32%
Mountain West	91,275	147,991	(56,716)	-38%
First Security	46,899	72,409	(25,510)	-35%
Western	20,216	29,535	(9,319)	-32%
1st Bank	20,422	29,714	(9,292)	-31%
Valley	13,755	12,816	939	7%
Big Sky	43,548	53,648	(10,100)	-19%
First Bank-WY	6,924	12,341	(5,417)	-44%
Citizens	7,905	12,187	(4,282)	-35%
First Bank-MT	731	830	(99)	-12%
San Juans	24,114	30,187	(6,073)	-20%
Other	4,280		4,280	n/m
Total	$ 381,498	549,977	(168,479)	-31%

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	$000000000	$000000000	$000000000	$000000000	$000000000	$000000000
	Land, Lot and Other Construction Loans by Bank, by Type at 12/31/11					
(Dollars in thousands)	Land Development	Consumer Land or Lot	Unimproved Land	Developed Lots for Operative Builders	Commercial Developed Lot	Other Construction
Glacier	$ 37,516	23,026	25,581	6,978	4,889	3,439
Mountain West	12,771	49,785	5,076	12,485	3,283	7,875
First Security	19,915	5,961	15,013	3,447	698	1,865
Western	9,710	4,241	3,157	534	1,649	925
1st Bank	5,060	7,063	2,655	199	1,273	4,172
Valley	1,984	4,495	1,383		3,582	2,311
Big Sky	12,275	13,671	7,960	955	2,748	5,939
First Bank-WY	1,758	3,336	784	582	80	384
Citizens	1,977	1,005	1,910		621	2,392
First Bank-MT		56	618		57	
San Juans	915	12,757	1,937		7,741	764
Other						4,280
Total	$ 103,881	125,396	66,074	25,180	26,621	34,346

	$000000000	$000000000	$000000000	$000000000	$000000000	$000000000
	Residential Construction Loans by Bank, by Type					
(Dollars in thousands)	Balance 12/31/11	Balance 12/31/10	$ Change	% Change	Custom and Owner Occupied 12/31/11	Pre-Sold and Spec 12/31/11
Glacier	$ 31,239	34,526	(3,287)	-10%	$ 8,385	22,854
Mountain West	13,519	21,375	(7,856)	-37%	6,858	6,661
First Security	9,065	10,123	(1,058)	-10%	4,009	5,056
Western	819	1,350	(531)	-39%	302	517
1st Bank	3,295	6,611	(3,316)	-50%	1,628	1,667
Valley	3,696	4,950	(1,254)	-25%	3,361	335
Big Sky	10,494	11,004	(510)	-5%	971	9,523
First Bank-WY	2,827	1,958	869	44%	2,827	
Citizens	7,010	9,441	(2,431)	-26%	3,280	3,730
First Bank-MT	199	502	(303)	-60%	156	43
San Juans	12,070	7,018	5,052	72%	3,645	8,425
Total	$ 94,233	108,858	(14,625)	-13%	$ 35,422	58,811

	$000000000	$000000000	$000000000	$000000000	$000000000	$000000000
	Single Family Residential Loans by Bank, by Type					
(Dollars in thousands)	Balance 12/31/11	Balance 12/31/10	$ Change	% Change	1st Lien 12/31/11	Junior Lien 12/31/11
Glacier	$ 174,928	187,683	(12,755)	-7%	$ 155,354	19,574
Mountain West	263,499	282,429	(18,930)	-7%	227,763	35,736
First Security	93,776	92,011	1,765	2%	79,543	14,233
Western	42,124	42,070	54	0%	40,216	1,908
1st Bank	53,385	59,337	(5,952)	-10%	48,953	4,432
Valley	57,068	60,085	(3,017)	-5%	47,820	9,248
Big Sky	31,275	32,496	(1,221)	-4%	28,253	3,022
First Bank-WY	12,195	13,948	(1,753)	-13%	8,592	3,603

Citizens		23,722	19,885	3,837	19%		22,487	1,235
First Bank-MT		7,737	8,618	(881)	-10%		6,892	845
San Juans		24,254	29,124	(4,870)	-17%		22,582	1,672
Total	$	783,963	827,686	(43,723)	-5%	$	688,455	95,508

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	Commercial Real Estate Loans by Bank, by Type				Owner	Non-Owner
	Balance	Balance			Occupied	Occupied
(Dollars in thousands)	12/31/11	12/31/10	$ Change	% Change	12/31/11	12/31/11
Glacier	$ 225,548	224,215	1,333	1%	$ 113,421	112,127
Mountain West	193,495	206,732	(13,237)	-6%	120,162	73,333
First Security	259,396	227,662	31,734	14%	176,866	82,530
Western	99,900	103,443	(3,543)	-3%	59,752	40,148
1st Bank	57,445	58,353	(908)	-2%	42,347	15,098
Valley	58,392	50,325	8,067	16%	36,127	22,265
Big Sky	84,048	88,135	(4,087)	-5%	55,399	28,649
First Bank-WY	23,986	27,609	(3,623)	-13%	18,360	5,626
Citizens	60,754	61,737	(983)	-2%	36,716	24,038
First Bank-MT	19,891	17,492	2,399	14%	9,440	10,451
San Juans	50,297	50,066	231	0%	28,541	21,756
Total	$ 1,133,152	1,115,769	17,383	2%	$ 697,131	436,021

	Consumer Loans by Bank, by Type				Home Equity Line of Credit	Other Consumer
	Balance	Balance				
(Dollars in thousands)	12/31/11	12/31/10	$ Change	% Change	12/31/11	12/31/11
Glacier	$ 134,725	150,082	(15,357)	-10%	$ 120,794	13,931
Mountain West	63,902	70,304	(6,402)	-9%	56,515	7,387
First Security	66,549	71,677	(5,128)	-7%	42,946	23,603
Western	37,657	43,081	(5,424)	-13%	26,695	10,962
1st Bank	35,567	40,021	(4,454)	-11%	14,006	21,561
Valley	24,634	23,745	889	4%	14,663	9,971
Big Sky	26,229	27,733	(1,504)	-5%	22,515	3,714
First Bank-WY	22,504	24,217	(1,713)	-7%	13,372	9,132
Citizens	27,273	29,040	(1,767)	-6%	22,973	4,300
First Bank-MT	7,093	8,005	(912)	-11%	3,402	3,691
San Juans	13,331	14,848	(1,517)	-10%	12,348	983
Total	$ 459,464	502,753	(43,289)	-9%	$ 350,229	109,235

n/m - not measurable

Residential Real Estate Lending

The Company s lending activities consist of the origination of both construction and permanent loans on residential real estate. The Company actively solicits residential real estate loan applications from real estate brokers, contractors, existing customers, customer referrals, and on-line applications. The Company s lending policies generally limit the maximum loan-to-value ratio on residential mortgage loans to 80 percent of the lesser of the appraised value or purchase price or above 80 percent of the loan if insured by a private mortgage insurance company. The Company also provides interim construction financing for single-family dwellings. These loans are supported by a term take-out commitment. The Company has not participated in any of the U.S. Departments of the Treasury and Housing and Urban Developments loan modification and refinancing programs.

Consumer Land or Lot Loans

The Company originates land and lot acquisition loans to borrowers who intend to construct their primary residence on the respective land or lot. These loans are generally for a term of three to five years and are secured by the developed land or lot with the loan to value limited to the lesser of 75 percent of cost or appraised value.

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Unimproved Land and Land Development Loans

Although unimproved land and land development loans have not recently been originated, where real estate market conditions warrant, the Company may originate such loans on properties intended for residential and commercial use. These loans are generally made for a term of 18 months to two years and secured by the developed property with a loan-to-value not to exceed the lesser of 75 percent of cost or 65 percent of the appraised discounted bulk sale value upon completion of the improvements. The projects under development are inspected on a regular basis and advances are made on a percentage of completion basis. The loans are made to borrowers with real estate development experience and appropriate financial strength. Generally, it is required that a certain percentage of the development be pre-sold or that construction and term take-out commitments are in place prior to funding the loan. Loans made on unimproved land are generally made for a term of five to ten years with a loan-to-value not to exceed the lesser of 50 percent of cost or appraised value.

Residential Builder Guidance Lines

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

Commercial Real Estate Loans

Loans are made to purchase, construct and finance commercial real estate properties. These loans are generally made to borrowers who own and will occupy the property and generally have a loan-to-value up to the lesser of 75 percent of cost or appraised value and require a minimum 1.2 times debt service coverage margin. Loans to finance investment or income properties are made, but require additional equity and generally have a loan-to-value up to the lesser of 70 percent of cost or appraised value and require a higher debt service coverage margin commensurate with the specific property and projected income.

Consumer Lending

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

Credit Risk Management

The Company s credit risk management includes stringent credit policies, concentration limits, individual loan approval limits and committee approval of larger loan requests. Management practices also include regular internal and external credit examinations and an independent stress testing of the commercial real estate portfolio, including construction loans. On a quarterly basis, both the Banks and Parent management review loans experiencing deterioration of credit quality. A review of loans by concentration limits is performed on a quarterly basis. Federal and state regulatory safety and soundness examinations are conducted annually at Glacier, Mountain West, First Security, Western and 1st Bank and every eighteen months for all other bank subsidiaries.

The Company s loan policy and credit administration practices establish standards and limits for all extensions of credit that are secured by interests in or liens on real estate, or made for the purpose of financing the construction of real property or other improvements. Ongoing monitoring and review of the loan portfolio is based on current information, including: the borrowers and guarantors creditworthiness, value of the real estate and other collateral, the project s performance against projections, and monthly inspections by employees or external parties until the real estate project is complete.

Loan Approval Limits

Individual loan approval limits have been established for each lender based on the loan types and experience of the individual. Each bank subsidiary has an Officer Loan Committee consisting of senior lenders and members of senior management. The bank subsidiaries Officer Loan Committees have loan approval authority between $500,000 and $1,000,000. The bank subsidiaries Board of Directors have loan approval authority up to $2,000,000. Loans exceeding these limits and up to $10,000,000 are subject to approval by the Company s Executive Loan Committee consisting of the Banks senior loan officers and the Company s Credit Administrator. Loans greater than $10,000,000 are subject to approval by the Company s Board of Directors. Under banking laws, loans to one borrower and related entities are limited to a prescribed

percentage of the unimpaired capital and surplus of each bank subsidiary.

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Interest Reserves

Interest reserves are used to periodically advance loan funds to pay interest charges on the outstanding balance of the related loan. As with any extension of credit, the decision to establish a loan-funded interest reserve upon origination of construction loans, including residential construction and land, lot and other construction loans, is based on prudent underwriting, including the feasibility of the project, expected cash flow, creditworthiness of the borrower and guarantors, and the protection provided by the real estate and other underlying collateral. Interest reserves provide an effective means for addressing the cash flow characteristics of construction loans. In response to the downturn in the housing market and potential impact upon construction lending, the Company discourages the creation or continued use of interest reserves.

Interest reserves are advanced provided the related construction loan is performing as expected. Loans with interest reserves may be extended, renewed or restructured only when the related loan continues to perform as expected and meets the prudent underwriting standards identified above. Such renewals, extension or restructuring are not permitted in order to keep the related loan current.

In monitoring the performance and credit quality of a construction loan, the Company assesses the adequacy of any remaining interest reserve, and whether the use of an interest reserve remains appropriate in the presence of emerging weakness and associated risks in the construction loan.

The ongoing accrual and recognition of uncollected interest as income continues only when facts and circumstances continue to reasonably support the contractual payment of principal or interest. Loans are typically designated as non-accrual when the collection of the contractual principal or interest is unlikely and has remained unpaid for ninety days or more. For such loans, the accrual of interest and its capitalization into the loan balance will be discontinued.

The Company had $75.7 million and $141 million in loans with interest reserves with remaining reserves of $568 thousand and $879 thousand as of December 31, 2011 and 2010, respectively. During 2011, the Company extended, renewed, or restructured 31 loans with interest reserves, such loans having an aggregate outstanding principal balance of $37.3 million as of December 31, 2011. However, such actions were based on prudent underwriting standards and not to keep the loans current. As of December 31, 2011, the Company had 18 construction loans totaling $14.1 million with interest reserves that are currently non-performing or which are potential problem loans.

Loan Purchases and Sales

Fixed rate, long-term mortgage loans are generally sold in the secondary market. The Company is active in the secondary market, primarily through the origination of conventional, FHA and VA residential mortgages. The sale of loans in the secondary mortgage market reduces the Company s risk of holding long-term, fixed rate loans during periods of rising rates. In connection with conventional loan sales, the Company typically sells the majority of mortgage loans originated with servicing released. The Company has also been very active in generating commercial SBA loans, and other commercial loans, with a portion of those loans sold to investors. The Company has not originated any type of subprime mortgages, either for the loan portfolio or for sale to investors. In addition, the Company has not purchased securities that were collateralized with subprime mortgages. The Company has not purchased loans outside the Company or originated loans outside the Company s geographic market area.

Loan Origination and Other Fees

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

Appraisal and Evaluation Process

The Company s Loan Policy and credit administration practices adopt and implement the applicable requirements of the Interagency Appraisal and Evaluation Guidelines (and the Interagency Guidelines for Real Estate Lending Policies in Appendix A to Part 365 of Title 12, CFR) (collectively, the Guidelines) and the Uniform Standards of Professional Appraisal Practice (USPAP) as established and amended by the Appraisal Standards Board. The Company s Loan Policy establishes criteria for obtaining appraisals or evaluations, including transactions that are otherwise exempt from the appraisal requirements set forth within the Guidelines.

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Each of the Company s eleven bank subsidiaries monitor conditions, including supply and demand factors, in the real estate markets served so they can react quickly to changing market conditions to mitigate potential losses from specific credit exposures within the loan portfolio. Evidence of the following real estate market conditions and trends is obtained from lending personnel and third party sources:

- demographic indicators, including employment and population trends;
- foreclosures, vacancy, construction and absorption rates;
- property sales prices, rental rates, and lease terms;
- current tax assessments;
- economic indicators, including trends within the lending areas; and
- valuation trends, including discount and capitalization rates.

Third party information sources include federal, state, and local governments and agencies thereof, private sector economic data vendors, real estate brokers, licensed agents, sales, rental and foreclosure data tracking services.

The time between ordering an appraisal or evaluation and receipt from third party vendors is typically two to three weeks for residential property and four to six weeks for non-residential property. For real estate properties that are of highly specialized or limited use, significantly complex or large, additional time beyond the typical times may be required for new appraisals or evaluations.

As part of the Company s credit administration and portfolio monitoring practices, the Company s regular internal and external credit examinations review a significant number of individual loan files. Appraisals and evaluations are reviewed to determine whether the timeliness, methods, assumptions, and findings are reasonable and in compliance with the Company s Loan Policy and credit administration practices, the Guidelines and USPAP standards. Such reviews include the adequacy of the steps taken by the Company to ensure that the individuals who perform appraisals and evaluations are appropriately qualified and are not subject to conflicts of interest. If there are any deficiencies noted in the reviews, they are reported to the Banks Board of Directors and prompt corrective action is taken.

Non-performing Assets

The following table summarizes information regarding non-performing assets at the dates indicated:

	December 31,				
(Dollars in thousands)	2011	2010	2009	2008	2007
Other real estate owned	$ 78,354	73,485	57,320	11,539	2,043
Accruing loans 90 days or more past due					
Residential real estate	59	506	1,965	4,103	840
Commercial	1,168	3,051	1,311	2,897	1,216
Consumer and other	186	974	2,261	1,613	629
Total	1,413	4,531	5,537	8,613	2,685
Non-accrual loans					
Residential real estate	11,882	23,095	20,093	3,575	934

Commercial	109,640	161,136	168,328	58,454	7,192
Consumer and other	12,167	8,274	9,860	2,272	434
Total	133,689	192,505	198,281	64,301	8,560
Total non-performing assets [1]	$ 213,456	270,521	261,138	84,453	13,288
Non-performing assets as a percentage of subsidiary assets	2.92%	3.91%	4.13%	1.46%	0.27%
Allowance for loan and lease losses as a percentage of non-performing loans	102%	70%	70%	105%	484%
Accruing loans 30-89 days past due	$ 49,086	45,497	87,491	54,787	45,490
Troubled debt restructurings not included in non-performing assets	$ 98,859	26,475	13,829	n/m	n/m
Interest income [2]	$ 7,441	10,987	11,730	4,434	683

1 As of December 31, 2011, non-performing assets have not been reduced by U.S. government guarantees of $2.7 million.

2 Amounts represent estimated interest income that would have been recognized on loans accounted for on a non-accrual basis as of the end of each period had such loans performed pursuant to contractual terms.

n/m - not measurable

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

	Non-Performing Assets, by Loan Type		Non-Accruing Loans	Accruing Loans 90 Days or More Past Due	Other Real Estate Owned
(Dollars in thousands)	Balance 12/31/11	Balance 12/31/10	12/31/11	12/31/11	12/31/11
Custom and owner occupied construction	$ 1,531	2,575	783		748
Pre-sold and spec construction	5,506	16,071	1,098		4,408
Land development	56,152	83,989	31,184		24,968
Consumer land or lots	8,878	12,543	3,942	27	4,909
Unimproved land	35,771	44,116	19,194	713	15,864
Developed lots for operative builders	9,001	7,429	7,084		1,917
Commercial lots	2,032	3,110	297		1,735
Other construction	5,133	3,837	4,305		828
Commercial real estate	28,828	36,978	19,181		9,647
Commercial and industrial	12,855	13,127	12,213	342	300
Agriculture loans	7,010	5,253	6,391		619
1-4 family	33,589	34,791	21,602	292	11,695
Home equity lines of credit	6,361	4,805	5,749	37	575
Consumer	360	446	217	2	141
Other	449	1,451	449		
Total	$ 213,456	270,521	133,689	1,413	78,354

	Accruing 30 - 89 Days Delinquent Loans and Non-Performing Assets, by Bank		Accruing 30-89 Days Past Due	Non-Accrual & Accruing Loans 90 Days or More Past Due	Other Real Estate Owned
(Dollars in thousands)	Balance 12/31/11	Balance 12/31/10	12/31/11	12/31/11	12/31/11
Glacier	$ 69,324	75,869	10,176	49,042	10,106
Mountain West	60,593	83,872	16,402	25,117	19,074
First Security	59,713	59,770	13,648	28,339	17,726
Western	7,651	11,237	1,937	448	5,266
1st Bank	18,158	16,686	3,693	9,302	5,163
Valley	2,444	1,900	863	728	853
Big Sky	19,795	21,739	410	11,549	7,836
First Bank-WY	8,965	9,901	321	6,910	1,734
Citizens	5,992	8,000	1,175	3,126	1,691
First Bank-MT	397	553	119	278	
San Juans	3,180	6,549	342	263	2,575
GORE	6,330	19,942			6,330
Total	$ 262,542	316,018	49,086	135,102	78,354

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There was a sizeable decrease in non-performing assets during the year due to a decrease in non-performing loans of $61.9 million, or 31 percent. Although there was a $4.9 million, or 7 percent, increase in OREO from the prior year end, there was a significant amount of additions to and sales of OREO as the Company continued to work through the foreclosed properties. The momentum of reducing non-performing assets continued throughout the year with each bank subsidiary actively managing the disposition of non-performing assets. The Company s early stage delinquencies (accruing loans 30-89 days past due) of $49.1 million at December 31, 2011, remained stable from the prior year end early stage delinquencies of $45.5 million.

The largest category of non-performing assets was land, lot and other construction which was $117 million, or 55 percent, of non-performing assets at December 31, 2011. Included in this category was $56.2 million of land development assets and $35.8 million in unimproved land at December 31, 2011. Although land, lot and other construction assets have historically put pressure on the Company s credit quality, the Company has diligently reduced this category of non-performing assets by $38.1 million, or 25 percent, since the prior year end. Other notable categories of non-performing assets at December 31, 2011 were commercial real estate of $28.9 million and 1-4 family of $33.6 million, both categories of which have decreased since the prior year end.

Most of the Company s non-performing assets are secured by real estate, and based on the most current information available to management, including updated appraisals or evaluations, the Company believes the value of the underlying real estate collateral is adequate to minimize significant charge-offs or loss to the Company. 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 in determining the adequacy of the ALLL. 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. Throughout the year, the Company has maintained an adequate allowance for loan and lease losses while working to reduce non-performing assets. The improvement in the credit quality ratios during the year are a product of this effort.

For non-performing construction loans involving residential structures, the percentage of completion exceeds 95 percent at December 31, 2011. For construction loans involving commercial structures, the percentage of completion ranges from projects not started to projects completed at December 31, 2011. During the construction loan term, all construction loan collateral properties are inspected at least monthly, or more frequently as needed, until completion. Draws on construction loans are predicated upon the results of the inspection and advanced based upon a percentage of completion basis versus original budget percentages. When construction loans become non-performing and the associated project is not complete, the Company on a case-by-case basis makes the decision to advance additional funds or to initiate collection/foreclosure proceedings. Such decision includes obtaining as-is and at completion appraisals for consideration of potential increases or decreases in the collateral s value. The Company also considers the increased costs of monitoring progress to completion, and the related collection/holding period costs should collateral ownership be transferred to the Company. With very limited exception, the Company does not disburse additional funds on non-performing loans. Instead, the Company has proceeded to collection and foreclosure actions in order to reduce the Company s exposure to loss on such loans.

As identified below, the following four bank subsidiaries had non-accrual construction loans that aggregated 5 percent or more of the Company s $67.9 million of non-accrual construction loans at December 31, 2011. Also identified below are the principal areas of the bank subsidiaries operations in which the collateral properties of such non-accrual construction loans are located:

Glacier	34 percent	Western Montana
First Security	26 percent	Western Montana
Mountain West	25 percent	Northern Idaho and Boise and Sun Valley, Idaho
Big Sky	10 percent	Western Montana

Residential non-accrual construction loans are 3 percent of the total construction loans on non-accrual status as of year end 2011, compared to 11 percent as of year end 2010. Unimproved land and land development loans collectively account for the bulk of the non-accrual commercial construction loans at the four bank subsidiaries. With locations and operations in the contiguous northern Rocky Mountain states of Idaho and Montana, the geography and economies of each of the four bank subsidiaries are predominantly tied to real estate development given the sprawling abundance of timbered valleys and mountainous terrain with significant lakes, streams and watershed areas. Consistent with the general economic downturn, the market for upscale primary, secondary and other housing as well as the associated construction and building industries have stalled after years of significant growth. As the housing market (rental and owner-occupied) and related industries continue to recover from the downturn, the Company continues to reduce its exposure to loss in the construction loan and other segments of the total loan portfolio.

For additional information on accounting policies relating to non-performing assets and impaired loans, see Note 1 to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Impaired Loans

Loans are designated impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement and therefore, the Company has serious doubts as to the ability of such borrowers to fulfill the contractual obligation. When the ultimate collectability of the total principal of an impaired loan is in doubt and designated as non-accrual, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal on an impaired loan is not in doubt, contractual interest is generally credited to interest income when received under the cash basis method. Impaired loans were $259 million and $225 million as of December 31, 2011 and 2010, respectively. The ALLL includes valuation allowances of $18.8 million and $16.9 million specific to impaired loans as of December 31, 2011 and 2010, respectively. Of the total impaired loans at December 31, 2011, there were 41 commercial real estate and other commercial loans that accounted for $121 million, or 47 percent, of the impaired loans. The 41 loans were collateralized by 147 percent of the loan value, the majority of which had appraisals (new or updated) in 2011, such appraisals reviewed at least quarterly taking into account current market conditions. Of the total impaired loans at December 31, 2011, there were 269 loans aggregating to $165 million, or 64 percent, whereby the borrowers had more than one impaired loan. The amount of impaired loans that have had partial charge-offs during the year for which the Company continues to have concern about the collectability of the remaining loan balance was $34.9 million. Of these loans, there were charge-offs of $18.1 million during 2011.

For collateral-dependent loans and real estate loans for which foreclosure or a deed-in-lieu of foreclosure is probable, impairment is measured by the fair value of the collateral, less estimated cost to sell. The fair value of the collateral is determined primarily based upon appraisal or evaluation (new or updated) of the underlying property value. The Company reviews appraisals or evaluations, giving consideration to the highest and best use of the collateral, with values reduced by discounts to consider lack of marketability and estimated cost to sell. Appraisals or evaluations (new or updated) are reviewed at least quarterly and more frequently based on current market conditions, including deterioration in a borrower s financial condition and when property values may be subject to significant volatility. After review and acceptance of the collateral appraisal or evaluation (new or updated), adjustments to an impaired loan s value may occur.

In deciding whether to obtain a new or updated appraisal or evaluation, the Company considers the impact of the following factors and environmental events:

- passage of time;
- improvements to, or lack of maintenance of, the collateral property;
- stressed and volatile economic conditions, including market values;
- changes in the performance, risk profile, size and complexity of the credit exposure;
- limited or specific use collateral property;
- high loan-to-value credit exposures;
- changes in the adequacy of the collateral protections, including loan covenants and financially responsible guarantors;
- competing properties in the market area;

changes in zoning and environmental contamination;

the nature of subsequent transactions (e.g., modification, restructuring, refinancing); and

the availability of alternative financing sources.

The Company also takes into account 1) the Company s experience with whether the appraised values of impaired collateral-dependent loans are actually realized, and 2) the timing of cash flows expected to be received from the underlying collateral to the extent such timing is significantly different than anticipated in the most recent appraisal.

The Company generally obtains new or updated appraisals or evaluations annually for collateral underlying impaired loans. For collateral-dependent loans for which the appraisal of the underlying collateral is more than twelve months old, the Company updates collateral valuations through procedures that include obtaining current inspections of the collateral property, broker price opinions, comprehensive market analyses and current data for conditions and assumptions (e.g., discounts, comparable sales and trends) underlying the appraisals valuation techniques. The Company s impairment/valuation procedures take into account new and updated appraisals on similar properties in the same area in order to capture current market valuation changes, unfavorable and favorable.

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Restructured Loans

A restructured loan is considered a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor s financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company had TDR loans of $165 million as of December 31, 2011. The Company s TDR loans are considered impaired loans of which $65.6 million are designated as non-accrual. As a result of adopting the Financial Accounting Standards Board s (FASB) amendment relating to TDRs during the third quarter of 2011, the Company reassessed all restructurings that occurred during the first six months of 2011 for potential identification as TDRs and identified $74.6 million in newly identified TDRs. Of these newly identified TDRs, $53.3 million were not previously identified as impaired loans; such loans had a specific valuation allowance of $3.2 million as of September 30, 2011.

Each restructured debt is separately negotiated with the borrower and includes terms and conditions that reflect the borrower s prospective ability to service the debt as modified. The Company discourages the multiple loan strategy when restructuring loans regardless of whether or not the notes are TDR loans. The Company does not have any commercial TDR loans as of December 31, 2011 that have repayment dates extended at or near the original maturity date for which the Company has not classified as impaired. The Company has TDR loans of $24.9 million that are in non-accrual status or that have had partial charge-offs during the year, the borrowers of which continue to have $38.7 million in other loans that are on accrual status.

Other Real Estate Owned

The loan book value prior to the acquisition and transfer of the loan into OREO during 2011 was $96.5 million of which $20.3 million was residential real estate, $67.4 million was commercial real estate, and $8.8 million was consumer loans. The loan collateral acquired in foreclosure during 2011 was $79.3 million of which $15.6 million was residential real estate, $58.3 million was commercial real estate, and $5.4 million was consumer loans. The following table sets forth the changes in OREO for the years ended December 31, 2011 and 2010:

(Dollars in thousands)	Years ended December 31, 2011	2010
Balance at beginning of period	$ 73,485	57,320
Additions	79,295	72,572
Capital improvements	669	273
Write-downs	(16,246)	(10,429)
Sales	(58,849)	(46,251)
Balance at end of period	$ 78,354	73,485

There was an increase in write-downs in 2011 compared to 2010, which was attributable to an increase in volume of OREO during 2011. Write-downs as a percentage of the beginning balance and additions to OREO was 10.6 percent for 2011 compared to 8.0 percent for 2010. The Company believes that the write-downs in 2011 are not indicative of a trend in that several of such properties have characteristics unique to the property, including special or limited use, and locations of such properties. The Company determined that the write-downs were not indicative of a trend continuing beyond 2011 which would likely affect the future operating results in light of the remaining holdings of real property and each particular bank subsidiary s experience in its particular markets. However, there can be no assurance that future significant write-downs will not occur.

Although the Company utilized auctions during 2010 as an alternative strategy for disposing of certain properties, the Company only utilized this strategy on a limited basis during 2011. The Company does not intend to use auctions for disposition of OREO in the future unless it is determined to be beneficial to the Company for certain properties. Costs of the auctions, including property-specific marketing costs and service fees paid to the third-party auction firms, are aggregated with other directly-related selling costs in determining the loss realized from disposition of the OREO. In addition to auctions, the Company utilizes real estate companies (local and national franchises) as well as showcasing select properties through the websites of the bank subsidiaries. Strategies for disposition of other real estate and other assets owned by each subsidiary are developed specific to each property.

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 portfolios. Accordingly, the ALLL is maintained within a range of estimated losses. The determination of the ALLL, including the provision for loan losses and net charge-offs, 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 portfolios, economic conditions nationally and in the local markets in which the community bank subsidiaries operate, changes in collateral values, delinquencies, non-performing assets and net charge-offs.

Although the Company and Banks continue to actively monitor economic trends, soft economic conditions combined with potential declines in the values of real estate that collateralize most of the Company s loan 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, the internal audit department, independent credit reviewers and state and federal bank regulatory agencies.

At the end of each quarter, each of the community bank subsidiaries analyzes its loan 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 allowance consists of a specific valuation allowance component and a general valuation allowance component. The specific valuation allowance component relates to loans that are determined to be impaired. A specific valuation allowance is established when the fair value of a collateral-dependent loan or the present value of the loan s expected future cash flows (discounted at the loan s effective interest rate) is lower than the carrying value of the impaired loan. The general valuation allowance component relates to probable credit losses inherent in the balance of the loan portfolio based on prior loss experience, adjusted for changes in trends and conditions of qualitative or environmental factors.

Management of each bank subsidiary exercises significant judgment when evaluating the effect of applicable qualitative or environmental factors on each bank subsidiary s historical loss experience for loans not identified as impaired. Quantification of the impact upon each bank subsidiary s ALLL is inherently subjective as data for any factor may not be directly applicable, consistently relevant, or reasonably available for management to determine the precise impact of a factor on the collectability of the Bank s unimpaired loan portfolio as of each evaluation date. Bank management documents its conclusions and rationale for changes that occur in each applicable factor s weight (i.e., measurement) and ensures that such changes are directionally consistent based on the underlying current trends and conditions for the factor.

The Company is committed to a conservative management of the credit risk within the loan 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 portfolios, semi-annual review of loans by industry, and periodic stress testing of the loans secured by real estate.

The Company s model of eleven independent wholly-owned 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. The Company s decentralized business model affords multiple reviews of larger loans before credit is extended, a significant benefit in mitigating and managing the Company s credit risk. The geographic dispersion of the market areas in which the Company and the community bank subsidiaries operate further mitigates the risk of credit loss. While this process is intended to limit credit exposure, there can be no assurance that further problem credits will not arise and additional loan losses incurred, particularly in periods of rapid economic downturns.

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

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The Company considers the ALLL balance of $138 million adequate to cover inherent losses in the loan portfolios as of December 31, 2011. However, no assurance can be given that the Company will not, in any particular period, sustain losses that are significant relative to the ALLL amount, or that subsequent evaluations of the loan portfolios applying management s judgment about then current factors, including economic and regulatory developments, will not require significant changes in the ALLL. Under such circumstances, this could result in enhanced provisions for loan losses. See additional risk factors in Item 1A. Risk Factors.

The following table summarizes the allocation of the ALLL as of the dates indicated:

(Dollars in thousands)	December 31, 2011		December 31, 2010		December 31, 2009		December 31, 2008		December 31, 2007	
	Allowance for Loan and Lease Losses	Percent of Loans in Category	Allowance for Loan and Lease Losses	Percent of Loans in Category	Allowance for Loan and Lease Losses	Percent of Loans in Category	Allowance for Loan and Lease Losses	Percent of Loans in Category	Allowance for Loan and Lease Losses	Percent of Loans in Category
Residential real estate	$ 17,227	14.9%	20,957	16.9%	13,496	18.3%	7,233	19.2%	4,755	19.2%
Commercial real estate	76,920	48.3%	76,147	47.9%	66,791	46.6%	35,305	47.4%	23,010	45.1%
Other commercial	20,833	18.0%	19,932	17.4%	39,558	17.8%	21,590	15.8%	17,453	17.8%
Home equity	13,616	12.7%	13,334	12.9%	13,419	12.4%	6,975	12.5%	4,680	12.1%
Other consumer	8,920	6.1%	6,737	4.9%	9,663	4.9%	5,636	5.1%	4,515	5.8%
Totals	$ 137,516	100.0%	137,107	100.0%	142,927	100.0%	76,739	100.0%	54,413	100.0%

The following table summarizes the ALLL experience for the periods indicated:

	Years ended December 31,				
(Dollars in thousands)	2011	2010	2009	2008	2007
Balance at beginning of period	$ 137,107	142,927	76,739	54,413	49,259
Provision for loan losses	64,500	84,693	124,618	28,480	6,680
Charge-offs					
Residential real estate	(5,671)	(16,575)	(18,854)	(3,233)	(306)
Commercial loans	(52,428)	(69,595)	(35,077)	(4,957)	(2,367)
Consumer and other loans	(11,267)	(7,780)	(6,965)	(1,649)	(714)
Total charge-offs	(69,366)	(93,950)	(60,896)	(9,839)	(3,387)
Recoveries					
Residential real estate	486	749	423	23	208
Commercial loans	3,830	2,203	1,636	716	656
Consumer and other loans	959	485	407	321	358
Total recoveries	5,275	3,437	2,466	1,060	1,222
Charge-offs, net of recoveries	(64,091)	(90,513)	(58,430)	(8,779)	(2,165)
Acquisitions [1]				2,625	639
Balance at end of period	$ 137,516	137,107	142,927	76,739	54,413

Allowance for loan and lease losses as a percentage of total loans	3.97%	3.66%	3.52%	1.88%	1.52%
Ratio of net charge-offs to average loans outstanding during the period	1.77%	2.26%	1.41%	0.23%	0.06%

[1] Acquisition of San Juans in 2008 and North Side State Bank in 2007.

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The following tables summarize the ALLL experience at the dates indicated, including identification by regulatory classification:

(Dollars in thousands)	Allowance for Loan and Lease Losses Balance 12/31/11	Balance 12/31/10	Provision for Year Ended 12/31/11	Provision for Year Ended 12/31/11 Over Net Charge-Offs	ALLL as a Percent of Loans 12/31/11
Glacier	$ 35,336	34,701	16,800	1.0	4.51%
Mountain West	36,167	35,064	30,100	1.0	5.38%
First Security	22,457				