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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2002

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

For the transition period from ____________________ to ____________________

COMMISSION FILE 0-18911

GLACIER BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

N/A

(Former name, former address, and former fiscal year, if changed since last report)

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

The number of shares of Registrant's common stock outstanding on November 5th, 2002 was 17,236,312. No preferred shares are issued or outstanding.

**GLACIER BANCORP, INC.**
**Quarterly Report on Form 10-Q**

**Index**

**Glacier Bancorp, Inc.**
**Consolidated Statements of Financial Condition**

| (Unaudited – dollars in thousands except per share data) | September 30, 2002 | December 31, 2001 | September 30, 2001 |
|---|---|---|---|
| **Assets:** | | | |
| Cash on hand and in banks | $ **62,723** | 73,456 | 64,064 |
| Interest bearing cash deposits | **18,690** | 23,970 | 9,790 |
| Cash and cash equivalents | **81,413** | 97,426 | 73,854 |
| Investments: | | | |
| Investment securities, available–for–sale | **233,229** | 158,036 | 154,721 |
| Mortgage backed securities, available–for–sale | **421,966** | 350,542 | 346,019 |
| Federal Home Loan Bank and Federal Reserve Bank stock, at cost | **42,128** | 37,007 | 36,076 |
| Total investments | **697,323** | 545,585 | 536,816 |
| Net loans receivable: | | | |
| Real estate loans | **383,890** | 421,996 | 441,232 |
| Commercial Loans | **674,139** | 620,134 | 627,110 |
| Consumer and other loans | **291,164** | 298,851 | 308,010 |
| Allowance for loan losses | **(21,342)** | (18,654) | (18,528) |
| Total loans, net | **1,327,851** | 1,322,327 | 1,357,824 |
| Premises and equipment, net | **47,524** | 50,566 | 52,071 |
| Real estate and other assets owned, net | **852** | 593 | 727 |
| Accrued interest receivable | **13,447** | 12,409 | 14,388 |
| Core deposit intangible, net | **7,181** | 8,261 | 8,630 |
| Goodwill | **33,189** | 33,510 | 35,381 |
| Other assets | **15,034** | 15,070 | 15,274 |
| | $ **2,223,814** | 2,085,747 | 2,094,965 |
| **Liabilities and stockholders' equity:** | | | |
| Deposits – non-interest bearing | $ **292,653** | 234,318 | 244,450 |
| Deposits – interest bearing | **1,206,000** | 1,211,746 | 1,209,469 |
| Advances from Federal Home Loan Bank of Seattle | **402,367** | 367,295 | 360,654 |
| Securities sold under agreements to repurchase | **33,572** | 32,585 | 29,392 |
| Other borrowed funds | **16,799** | 1,060 | 12,020 |
| Accrued interest payable | **6,291** | 9,179 | 10,657 |
| Current income taxes | **1,642** | 95 | 3,371 |
| Deferred tax liability | **8,240** | 1,780 | 2,685 |
| Trust preferred securities | **35,000** | 35,000 | 35,000 |
| Other liabilities | **15,058** | 15,706 | 15,672 |
| Total liabilities | **2,017,622** | 1,908,764 | 1,923,370 |
| Preferred shares, 1,000,000 shares authorized. None outstanding | -- | -- | -- |
| Common stock, $.01 par value per share 50,000,000 shares authorized | **172** | 169 | 167 |
| Paid–in capital | **171,457** | 167,371 | 163,384 |
| Retained earnings – substantially restricted | **22,912** | 7,687 | 3,761 |
| Accumulated other comprehensive income | **11,651** | 1,756 | 4,283 |

| | | | |
|---|---|---|---|
| Total stockholders' equity | **206,192** | 176,983 | 171,595 |
| | $ **2,223,814** | 2,085,747 | 2,094,965 |
| Number of shares outstanding | **17,223,574** | 16,874,422 | 16,728,482 |
| Book value of equity per share | $ **11.97** | 10.49 | 10.26 |
| Tangible book value per share | $ **9.63** | 8.01 | 7.63 |

See accompanying notes to consolidated financial statements



## Glacier Bancorp, Inc.
## Consolidated Statements of Operations

| (unaudited – dollars in thousands except per share data) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| **Interest income:** | | | | |
| Real estate loans | $ **7,190** | 9,332 | **22,253** | 26,313 |
| Commercial loans | **12,007** | 12,824 | **35,088** | 34,524 |
| Consumer and other loans | **5,643** | 6,733 | **17,142** | 19,221 |
| Investments | **8,989** | 8,211 | **25,931** | 22,080 |
| Total interest income | **33,829** | 37,100 | **100,414** | 102,138 |
| **Interest expense:** | | | | |
| Deposits | **6,429** | 11,452 | **20,544** | 33,250 |
| FHLB Advances | **4,189** | 5,212 | **12,555** | 14,049 |
| Securities sold under agreements to repurchase | **144** | 266 | **433** | 791 |
| Trust preferred securities | **904** | 904 | **2,711** | 2,410 |
| Other borrowed funds | **32** | 67 | **72** | 210 |
| Total interest expense | **11,698** | 17,901 | **36,315** | 50,710 |
| **Net interest income** | **22,131** | 19,199 | **64,099** | 51,428 |
| Provision for loan losses | **1,665** | 1,006 | **4,225** | 3,429 |
| Net interest income after provision for loan losses | **20,466** | 18,193 | **59,874** | 47,999 |
| **Non–interest income:** | | | | |
| Service charges and other fees | **3,726** | 3,270 | **10,332** | 9,009 |
| Miscellaneous loan fees and charges | **1,031** | 995 | **3,056** | 2,728 |
| Gains on sale of loans | **1,225** | 1,111 | **3,497** | 2,766 |
| Gains on sale of investments, net | — | 24 | **2** | 88 |
| Other income | **475** | 395 | **1,753** | 2,085 |
| Total non–interest income | **6,457** | 5,795 | **18,640** | 16,676 |
| **Non–interest expense:** | | | | |
| Compensation, employee benefits and related expenses | **7,541** | 7,392 | **22,856** | 20,182 |
| Occupancy and equipment expense | **2,340** | 2,187 | **6,965** | 6,147 |
| Outsourced data processing expense | **547** | 707 | **1,508** | 2,007 |
| Core deposit intangibles amortization | **359** | 383 | **1,080** | 957 |
| Goodwill amortization | — | 492 | — | 1,229 |
| Other expenses | **3,209** | 3,948 | **10,294** | 10,427 |
| Minority interest | — | — | — | 35 |
| Total non–interest expense | **13,996** | 15,109 | **42,703** | 40,984 |
| **Earnings before income taxes** | **12,927** | 8,879 | **35,811** | 23,691 |
| Federal and state income tax expense | **4,311** | 3,172 | **12,170** | 8,462 |
| **Net earnings** | $ **8,616** | 5,707 | **23,641** | 15,229 |
| Basic earnings per share | $ **0.50** | 0.34 | **1.38** | 0.99 |
| Diluted earnings per share | $ **0.49** | 0.33 | **1.36** | 0.96 |
| Dividends declared per share | $ **0.17** | 0.15 | **0.49** | 0.45 |
| Return on average assets (annualized) | **1.58**% | 1.06% | **1.48**% | 1.06% |
| Return on average equity (annualized) | **17.03**% | 13.50% | **16.42**% | 13.41% |
| Return on tangible average equity (annualized) | **21.32**% | 18.09% | **20.94**% | 17.91% |
| Average outstanding shares – basic | **17,209,487** | 16,676,275 | **17,120,894** | 15,344,475 |
| Average outstanding shares – diluted | **17,501,540** | 17,078,578 | **17,420,288** | 15,828,650 |

See accompanying notes to consolidated financial statements.

## Glacier Bancorp, Inc.
## Consolidated Statements of Stockholders' Equity and Comprehensive Income
**Year ended December 31, 2001 and Nine months ended September 30, 2002**

| (Unaudited – dollars in thousands except per share data) | Common Stock Shares | Common Stock Amount | Paid–in capital | Retained earnings (accumulated deficit) substantially restricted | Accumulated other comp–rehensive income | Total stock–holders' equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2000 | 11,447,150 | $ 114 | 101,828 | (4,087) | 258 | 98,113 |
| Comprehensive income: | | | | | | |
| Net earnings | — | — | — | 21,689 | — | 21,689 |
| Unrealized gain on securities, net of reclassification adjustment | — | — | — | — | 1,498 | 1,498 |
| Total comprehensive income | | | | | | 23,187 |
| Cash dividends declared ($.60 per share) | — | — | — | (9,915) | — | (9,915) |
| Stock options exercised | 864,571 | 9 | 6,755 | — | — | 6,764 |
| Tax benefit from stock related compensation | — | — | 2,778 | — | — | 2,778 |
| Conversion of debentures | 32,239 | 1 | 341 | — | — | 342 |
| Stock issued in connection with merger of WesterFed Financial Corporation | 4,530,462 | 45 | 55,669 | — | — | 55,714 |
| Balance at December 31, 2001 | 16,874,422 | $ 169 | 167,371 | 7,687 | 1,756 | 176,983 |
| Comprehensive income: | | | | | | |
| Net earnings | — | — | — | 23,641 | — | 23,641 |
| Unrealized gain on securities, net of reclassification adjustment | — | — | — | — | 9,895 | 9,895 |
| Total comprehensive income | | | | | | 33,536 |
| Cash dividends declared ($.49 per share) | — | — | — | (8,416) | — | (8,416) |
| Stock options exercised | 349,152 | 3 | 4,086 | — | — | 4,089 |
| Balance at September 30, 2002 | 17,223,574 | $ 172 | 171,457 | 22,912 | 11,651 | 206,192 |

See accompanying notes to consolidated financial statements



## Glacier Bancorp, Inc.
## Consolidated Statements of Cash Flows

| (Unaudited - dollars in thousands except per share data) | Nine months ended September 30, 2002 | 2001 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Net cash provided by operating activities | $ **17,671** | 11,660 |
| **INVESTING ACTIVITIES:** | | |
| Proceeds from sales, maturities and prepayments of investments available–for–sale | **146,080** | 158,134 |
| Purchases of investments available–for–sale | **(280,008)** | (256,425) |
| Principal collected on installment and commercial loans | **422,530** | 272,133 |
| Installment and commercial loans originated or acquired | **(468,848)** | (352,595) |
| Principal collections on mortgage loans | **186,291** | 245,170 |
| Mortgage loans originated or acquired | **(136,293)** | (170,680) |
| Net purchase of FHLB and FRB stock | **(3,583)** | (3,490) |
| Acquisition of WesterFed Financial Corporation and several branches | **—** | 107,239 |
| Sale of branches | **—** | (53,131) |
| Net decrease in premises and equipment | **91** | 541 |
| NET CASH USED IN INVESTING ACTIVITIES | **(133,740)** | (53,104) |
| **FINANCING ACTIVITIES:** | | |
| Net increase in deposits | **52,589** | 26,404 |
| Net increase in FHLB advances and other borrowed funds | **50,810** | 6,194 |
| Net increase (decrease) in securities sold under repurchase agreements | **987** | (3,336) |
| Proceeds from issuance of trust preferred securities | **—** | 35,000 |
| Cash dividends paid to stockholders | **(8,416)** | (6,645) |
| Proceeds from exercise of stock options and other stock issued | **4,086** | 5,895 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | **100,056** | 63,512 |

| | | |
|---|---|---|
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(16,013)** | 22,068 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | **97,426** | 51,786 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ **81,413** | 73,854 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash paid during the period for: | | |
| Interest | $ **39,203** | 52,230 |
| Income taxes | $ **10,619** | 6,101 |

See accompanying notes to consolidated financial statements.



## Notes to Consolidated Financial Statements

1) Basis of Presentation:

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Glacier Bancorp Inc.'s (the "Company") financial condition as of September 30, 2002, December 31, 2001, and September 30, 2001, stockholders' equity for the nine months ended September 30, 2002 and the year ended December 31, 2001, the results of operations for the three and nine months ended September 30, 2002 and 2001, and the cash flows for the nine months ended September 30, 2002 and 2001.

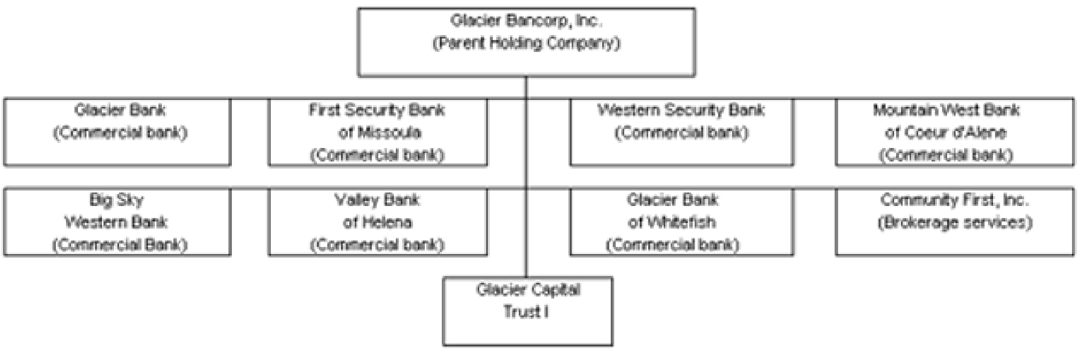
The accompanying consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Operating results for the nine months ended September 30, 2002 are not necessarily indicative of the results anticipated for the year ending December 31, 2002. Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

2) Organizational Structure:

The Company, headquartered in Kalispell, Montana, is a Delaware corporation incorporated in 1990, pursuant to the reorganization of Glacier Bank, FSB into a bank holding company. The Company is the parent company for nine wholly owned subsidiaries: Glacier Bank ("Glacier"), First Security Bank of Missoula ("First Security"), Western Security Bank ("Western"), Big Sky Western Bank ("Big Sky"), Valley Bank of Helena ("Valley"), Glacier Bank of Whitefish ("Whitefish"), Community First, Inc. ("CFI"), and Glacier Capital Trust I ("Glacier Trust"), all located in Montana, and Mountain West Bank ("Mountain West") which is located in Idaho and Utah. The Company does not have any off-balance sheet entities.

CFI provides full service brokerage services through Raymond James Financial Services, Inc.

The following abbreviated organizational chart illustrates the various relationships:






3) Ratios:

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

4) Cash Dividend Declared:

September 25, 2002, the Board of Directors declared a $.17 per share quarterly cash dividend to stockholders of record on October 8, 2002, payable on October 17, 2002.

5) Computation of Earnings Per Share:

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

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

| | | Three months ended Sept. 30, 2002 | Three months ended Sept. 30, 2001 | Nine months ended Sept. 30, 2002 | Nine months ended Sept. 30, 2001 |
|---|---|---|---|---|---|
| Net earnings available to common stockholders, basic | $ | **8,616,194** | 5,707,016 | **23,641,308** | 15,229,360 |
| After tax effect of interest on convertible subordinated debentures | | — | 4,000 | — | 12,000 |
| Net earnings available to common stockholders, diluted | $ | **8,616,194** | 5,711,016 | **23,641,308** | 15,241,360 |
| Average outstanding shares - basic | | **17,209,487** | 16,676,275 | **17,120,894** | 15,344,475 |
| Add: Dilutive stock options | | **292,053** | 369,278 | **299,394** | 451,150 |
| Convertible subordinated debentures | | — | 33,025 | — | 33,025 |
| Average outstanding shares - diluted | | **17,501,540** | 17,078,578 | **17,420,288** | 15,828,650 |
| Basic earnings per share | $ | **0.50** | 0.34 | **1.38** | 0.99 |
| Diluted earnings per share | $ | **0.49** | 0.33 | **1.36** | 0.96 |

6) Investments:

A comparison of the amortized cost and estimated fair value of the Company’s investments is as follows. All investments are held at market value, except the Federal Home Loan Bank of Seattle (FHLB) and Federal Reserve Bank (FRB) stock. The FHLB and FRB stocks are restricted because they may only be sold to another member institution or the FHLB or FRB at their par values. Due to the restrictive terms, and lack of a readily determinable market value, FHLB and FRB stocks are carried at cost.



**INVESTMENTS AS OF SEPTEMBER 30, 2002**

| (Dollars in thousands) | Weighted Yield | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|---|
| **U.S. Government and Federal Agencies** | | | | | |
| maturing after ten years | 3.58% | $ 1,104 | 9 | (2) | 1,111 |
| | 3.58% | 1,104 | 9 | (2) | 1,111 |
| **State and Local Governments and other issues:** | | | | | |
| maturing within one year | 5.68% | 2,148 | 52 | — | 2,200 |
| maturing one year through five years | 5.48% | 11,293 | 52 | (118) | 11,427 |
| maturing five years through ten years | 5.69% | 3,127 | 120 | — | 3,247 |
| maturing after ten years | 5.54% | 206,161 | 9,635 | (552) | 215,244 |
| | 5.54% | 222,729 | 10,059 | (670) | 232,118 |
| **Mortgage-Backed Securities** | 5.63% | 94,644 | 2,673 | (36) | 97,281 |
| **Real Estate Mortgage Investment Conduits** | 5.32% | 317,462 | 7,361 | (138) | 324,685 |
| **FHLB and FRB stock, at cost** | 6.00% | 42,128 | — | — | 42,128 |
| **Total Investments** | 5.47% | $678,067 | 20,102 | (846) | 697,323 |

**INVESTMENTS AS OF DECEMBER 31, 2001**

| (Dollars in thousands) | Weighted Yield | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|---|
| **U.S. Government and Federal Agencies** | | | | | |
| maturing after ten years | 2.77% | $ 1,330 | 12 | (3) | 1,339 |
| | 2.77% | 1,330 | 12 | (3) | 1,339 |
| **State and Local Governments and other issues:** | | | | | |
| maturing within one year | 3.25% | 4,639 | 28 | — | 4,667 |
| maturing one year through five years | 5.36% | 13,774 | 291 | (65) | 14,000 |
| maturing five years through ten years | 5.50% | 2,349 | 57 | (6) | 2,400 |
| maturing after ten years | 5.81% | 135,789 | 1,563 | (1,722) | 135,630 |

| | | | | | |
|---|---|---|---|---|---|
| | 5.67% | 156,551 | 1,939 | (1,793) | 156,697 |
| **Mortgage-Backed Securities** | 6.08% | 129,322 | 1,868 | (126) | 131,064 |
| **Real Estate Mortgage Investment Conduits** | 6.11% | 218,470 | 2,941 | (1,933) | 219,478 |
| **FHLB and FRB stock, at cost** | 6.82% | 37,007 | — | — | 37,007 |
| **Total Investments** | 6.01% | $542,680 | 6,760 | (3,855) | 545,585 |

Gross proceeds from sales of investment securities for the three months and nine months ended September 30, 2002 and year ended December 31, 2001 were $0, $24,428,000, and $86,311,000, respectively, resulting in gross gains of approximately $0, $215,000, and $71,000 and gross losses of approximately $0, $213,000, and $7,000. The cost of any investment sold is determined by specific identification.



7) Loans

The following table summarizes the Company’s loan portfolio. The loans mature or are repriced at various times.

| TYPE OF LOAN | At 09/30/02 | | At 12/31/2001 | |
|---|---|---|---|---|
| (Dollars in Thousands) | Amount | Percent | Amount | Percent |
| Real Estate Loans: | | | | |
| Residential first mortgage loans | $ 3543,786 | 25.9% | $ 395,417 | 29.9% |
| Loans held for sale | 40,832 | 3.1% | 27,403 | 2.1% |
| Total | 384,618 | 29.0% | 422,820 | 32.0% |
| Commercial Loans: | | | | |
| Real estate | 395,995 | 29.8% | 379,346 | 28.7% |
| Other commercial loans | 279,300 | 21.0% | 241,811 | 18.3% |
| Total | 675,295 | 50.8% | 621,157 | 47.0% |
| Installment and Other Loans: | | | | |
| Consumer loans | 122,084 | 9.2% | 142,875 | 10.8% |
| Home equity loans | 169,199 | 12.7% | 156,140 | 11.8% |
| Total | 291,283 | 21.9% | 299,015 | 22.6% |
| Net deferred loan fees, premiums and discounts | (2,003) | -0.1% | (2,011) | -0.2% |
| Allowance for Losses | (21,342) | -1.6% | (18,654) | -1.4% |
| Net Loans | $1,327,851 | 100.0% | $1,322,327 | 100.0% |

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

| (Dollars in Thousands) | At 9/30/2002 | At 12/31/2001 |
|---|---|---|
| Non–accrual loans: | | |
| Mortgage loans | $ 2,293 | 4,044 |
| Commercial loans | 5,508 | 4,568 |
| Consumer loans | 573 | 620 |
| Total | $ 8,674 | 9,232 |
| Accruing Loans 90 days or more overdue: | | |
| Mortgage loans | 707 | 818 |
| Commercial loans | 471 | 376 |
| Consumer loans | 256 | 243 |
| Total | $ 1,434 | 1,437 |
| Real estate and other assets owned, net | 852 | 593 |
| Total non–performing loans, and real estate and other assets owned, net | $10,960 | 11,262 |
| As a percentage of total assets | 0.49% | 0.53% |
| Interest Income (1) | $ 486 | 658 |

(1) This is the amount of interest that would have been recorded on loans accounted for on a non–performing basis for the nine months ended September 30, 2002 and the year ended December 31, 2001, if such loans had been current for the entire period.



The following table illustrates the loan loss experience:

| ALLOWANCE FOR LOAN LOSS (Dollars in Thousands) | Nine months ended September 30, 2002 | Year ended December 31, 2001 |
|---|---|---|
| Balance at beginning of period | $18,654 | 7,799 |
| Charge offs: | | |
| Residential real estate | (680) | (677) |
| Commercial loans | (1,039) | (723) |
| Consumer loans | (916) | (2,029) |
| Total charge offs | $ (2,635) | (3,429) |
| Recoveries: | | |
| Residential real estate | 254 | 33 |
| Commercial loans | 261 | 266 |
| Consumer loans | 583 | 567 |
| Total recoveries | $ 1,098 | 866 |
| Chargeoffs, net of recoveries | (1,537) | (2,563) |
| Purchased reserve | — | 8,893 |
| Provision | 4,225 | 4,525 |
| Balance at end of period | $21,342 | 18,654 |
| Ratio of net charge offs to average loans outstanding during the period | 0.16% | 0.20% |

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

| | September 30, 2002 | | December 31, 2001 | |
|---|---|---|---|---|
| (Dollars in thousands) | Allowance | Percent of loans in category | Allowance | Percent of loans in category |
| Residential first mortgage | $ 2,604 | 28.4% | 2,722 | 31.5% |
| Commercial real estate | 6,859 | 29.3% | 5,906 | 28.3% |
| Other commercial | 7,945 | 20.7% | 6,225 | 18.0% |
| Consumer | 3,934 | 21.6% | 3,801 | 22.2% |
| Totals | $21,342 | 100.0% | 18,654 | 100.0% |

8) Deposits

The following table illustrates the amounts outstanding for deposits greater than $100,000 at September 30, 2002, according to the time remaining to maturity:

| (Dollars in thousands) | Certificates of Deposit | Demand Deposits | Totals |
|---|---|---|---|
| Within three months | $24,794 | 388,550 | 413,344 |
| Three to six months | 16,483 | — | 16,483 |
| Seven to twelve months | 20,065 | — | 20,065 |
| Over twelve months | 16,139 | — | 16,139 |
| Totals | $77,481 | 388,550 | 466,031 |

9) Advances and Other Borrowings

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

| (Dollars in thousands) | September 30, 2002 | December 31, 2001 |
|---|---|---|
| FHLB Advances | | |
| Amount outstanding at end of period | $402,367 | 367,295 |
| Average balance | $394,270 | 349,023 |
| Maximum outstanding at any month–end | $433,262 | 416,222 |
| Weighted average interest rate | 4.26% | 5.24% |
| Repurchase Agreements: | | |
| Amount outstanding at end of period | $ 33,572 | 32,585 |
| Average balance | $ 33,685 | 27,375 |
| Maximum outstanding at any month–end | $ 41,113 | 37,814 |
| Weighted average interest rate | 1.72% | 2.11% |

10) Stockholders' Equity:

The Federal Reserve Board has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. The following table illustrates the Federal Reserve Board's capital adequacy guidelines and the Company's compliance with those guidelines as of September 30, 2002:

| CONSOLIDATED (Dollars in thousands) | Tier 1 (Core) Capital | Tier 2 (Total) Capital | Leverage Capital |
|---|---|---|---|
| GAAP Capital | $ 206,192 | 206,192 | 206,192 |
| Less: Goodwill and intangibles | (40,370) | (40,370) | (40,370) |
| Accumulated other comprehensive gain on AFS securities | (11,651) | (11,651) | (11,651) |
| Plus: Allowance for loan losses | — | 18,887 | — |
| Trust preferred securities | 35,000 | 35,000 | 35,000 |
| Other Adjustments | — | 110 | — |
| Regulatory capital computed | $ 189,171 | 208,168 | 189,171 |
| Risk weighted assets | $1,508,540 | 1,508,540 | |
| Total average assets | | | $2,127,792 |
| Capital as % of defined assets | 12.54% | 13.80% | 8.89% |
| Regulatory "well capitalized" requirement | 6.00% | 10.00% | 5.00% |
| Excess over "well capitalized" requirement | 6.54% | 3.80% | 3.89% |



11) Comprehensive Earnings:

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

| | For the three months ended September 30, | | For the six months ended September 30, | |
|---|---|---|---|---|
| Dollars in thousands | 2002 | 2001 | 2002 | 2001 |
| Net earnings | $ 8,616 | 5,707 | 23,641 | 15,229 |
| Unrealized holding gain arising during the period | 7,989 | 3,694 | 16,354 | 6,561 |
| Tax expense | (3,153) | !1,485) | (6,460) | (2,590) |
| Net after tax | 4,836 | 2,209 | 9,894 | 3,971 |
| Reclassification adjustment for gains included in net income | — | 24 | 2 | 88 |
| Tax expense | — | (9) | (1) | (34) |
| Net after tax | — | 15 | 1 | 54 |
| Net unrealized gain on securities | 4,836 | 2,224 | 9,895 | 4,025 |
| Total comprehensive earnings | $13,452 | 7,931 | 33,536 | 19,254 |

12) Segment Information

The Company evaluates segment performance internally based on individual bank charters, and thus the operating segments are so defined. The following schedule provides selected financial data for the Company's operating segments. Centrally provided services to the Banks are allocated based on estimated usage of those services. The operating segment identified as "Other" includes the Parent, non-bank units, and eliminations of transactions between segments. During the third quarter of 2001, certain branches of Western were transferred to other Company owned banks located in the same geographic area which accounted for the change in activity for certain segments.

| | Nine months ended and as of September 30, 2002 | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Glacier | First Security | Western | Mountain West | Big Sky |
| Revenues from external customers | $ 28,245 | 25,651 | 20,423 | 18,920 | 9,517 |
| Intersegment revenues | 247 | 82 | 8 | — | — |
| Expenses | 20,882 | 19,723 | 16,338 | 16,041 | 7,485 |
| Intercompany eliminations | — | — | — | — | — |
| Net income | $ 7,610 | 6,010 | 4,093 | 2,879 | 2,032 |
| Total Assets | $486,924 | 481,290 | 399,316 | 387,089 | 175,368 |

| | Valley | Whitefish | Other | Total Consolidated |
|---|---|---|---|---|
| Revenues from external customers | 9,720 | 6,360 | 218 | 119,054 |
| Intersegment revenues | 103 | — | 29,867 | 30,307 |
| Expenses | 8,201 | 4,762 | 1,981 | 95,413 |
| Intercompany eliminations | — | — | (30,307) | (30,307) |
| Net income | 1,622 | 1,598 | (2,203) | 23,641 |
| Total Assets | 1821,356 | 123,551 | (12,065) | 2,223,829 |



| | Nine months ended and as of September 30, 2001 | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Glacier | First Security | Western | Mountain West | Big Sky |
| Revenues from external customers | $ 30,584 | 18,552 | 33,079 | 15,278 | 6,723 |
| Intersegment revenues | 937 | 14 | 169 | 192 | 2 |
| Expenses | 25,707 | 14,743 | 29,476 | 15,108 | 5,756 |
| Intercompany eliminations | — | — | — | — | — |
| Net income | $ 5,814 | 3,823 | 3,772 | 362 | 969 |
| Total Assets | $528,848 | 422,687 | 381,994 | 318,159 | 166,879 |

| | Valley | Whitefish | Other | Total Consolidated |
|---|---|---|---|---|
| Revenues from external customers | 8,074 | 6,255 | 270 | 118,815 |
| Intersegment revenues | 125 | 14 | 20,216 | 21,669 |
| Expenses | 6,870 | 4,995 | 931 | 103,586 |
| Intercompany eliminations | — | — | (21,669) | (21,669) |
| Net income | 1,329 | 1,274 | (2,114) | 15,229 |
| Total Assets | 165,859 | 122,991 | (12,452) | 2,094,965 |

| | Three months ended and as of September 30, 2002 | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Glacier | First Security | Western | Mountain West | Big Sky |
| Revenues from external customers | $ 9,589 | 8,633 | 6,762 | 6,467 | 3,232 |
| Intersegment revenues | 77 | 33 | — | — | — |
| Expenses | 6,929 | 6,549 | 5,268 | 5,425 | 2,478 |
| Intercompany eliminations | — | — | — | — | — |
| Net income | $ 2,737 | 2,117 | 1,494 | 1,042 | 754 |

| | | | | | |
|---|---|---|---|---|---|
| Total Assets | $486,924 | 481,290 | 399,316 | 387,089 | 175,368 |

| | Valley | Whitefish | Other | Total Consolidated |
|---|---|---|---|---|
| Revenues from external customers | 3,303 | 2,177 | 123 | 40,286 |
| Intersegment revenues | 33 | — | 10,850 | 10,993 |
| Expenses | 2,874 | 1,594 | 553 | 31,670 |
| Intercompany eliminations | — | — | (10,993) | (10,993) |
| Net income | 462 | 583 | (573) | 8,616 |
| Total Assets | 182,356 | 123,551 | (12,065) | 2,223,829 |



| | Three months ended and as of September 30, 2001 | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Glacier | First Security | Western | Mountain West | Big Sky |
| Revenues from external customers | $ 10,792 | 8,230 | 9,366 | 5,872 | 3,130 |
| Intersegment revenues | 478 | 3 | 161 | — | 2 |
| Expenses | 9,025 | 6,530 | 8,796 | 5,615 | 2,567 |
| Intercompany eliminations | — | — | — | — | — |
| Net income | $ 2,245 | 1,703 | 731 | 257 | 565 |
| Total Assets | $528,848 | 422,687 | 381,994 | 318,159 | 166,879 |

| | Valley | Whitefish | Other | Total Consolidated |
|---|---|---|---|---|
| Revenues from external customers | 3,386 | 2,249 | (130) | 42,895 |
| Intersegment revenues | 59 | 8 | 7,557 | 8,268 |
| Expenses | 2,889 | 1,791 | (25) | 37,188 |
| Intercompany eliminations | — | — | (8,268) | (8,268) |
| Net income | 556 | 466 | (816) | 5,707 |
| Total Assets | 165,859 | 122,991 | (12,452) | 2,094,965 |

13) Rate/Volume Analysis

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

| | Nine Months Ended September 30, 2002 vs. 2001 Increase (Decrease) due to: | | |
|---|---|---|---|
| (Dollars in Thousands) | Volume | Rate | Net |
| **Interest Income** | | | |
| Real Estate Loans | $ (2,691) | (1,369) | (4,060) |
| Commercial Loans | 6,854 | (6,290) | 564 |
| Consumer and Other Loans | (110) | (1,969) | (2,079) |
| Investment Securities | 6,898 | (3,047) | 3,851 |
| Total Interest Income | 10,951 | (12,675) | (1,724) |
| **Interest Expense** | | | |
| NOW Accounts | 219 | (1,048) | (829) |
| Savings Accounts | 349 | (1,172) | (823) |
| Money Market Accounts | 2,280 | (4,487) | (2,207) |
| Certificates of Deposit | (1,555) | (7,292) | (8,847) |
| FHLB Advances | 1,941 | (3,435) | (1,494) |
| Other Borrowings and Repurchase Agreements | 463 | (658) | (195) |
| Total Interest Expense | 3,697 | (18,092) | (14,395) |
| **Net Interest Income** | $ 7,254 | 5,417 | 12,671 |

14) Average Balance Sheet

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

| AVERAGE BALANCE SHEET (Dollars in Thousands) | For the Nine months ended 9-30-02 Average Balance | Interest and Dividends | Average Yield/ Rate | For the year ended 12-31-01 Average Balance | Interest and Dividends | Average Yield/ Rate |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Real Estate Loans | $ 383,386 | 22,253 | 7.74% | $ 428,999 | 34,012 | 7.93% |
| Commercial Loans | 641,598 | 35,088 | 7.31% | 556,907 | 48,292 | 8.67% |
| Consumer and Other Loans | 289,616 | 17,142 | 7.91% | 292,732 | 25,528 | 8.72% |
| Total Loans | 1,314,600 | 74,483 | 7.58% | 1,278,638 | 107,832 | 8.43% |
| Investment Securities | 637,052 | 25,931 | 5.43% | 501,927 | 30,088 | 5.99% |
| Total Earning Assets | 1,951,652 | 100,414 | 6.86% | 1,780,565 | 137,920 | 7.75% |
| Non-Earning Assets | 171,838 | | | 165,687 | | |
| **TOTAL ASSETS** | $2,123,490 | | | $1,946,252 | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | |
| NOW Accounts | $ 204,993 | 578 | 0.38% | $ 183,399 | 1,758 | 0.96% |
| Savings Accounts | 127,245 | 676 | 0.71% | 102,736 | 1,855 | 1.81% |
| Money Market Accounts | 349,620 | 5,316 | 2.03% | 287,150 | 9,575 | 3.33% |
| Certificates of Deposit | 506,989 | 13,974 | 3.69% | 552,469 | 29,504 | 5.34% |
| FHLB Advances | 394,270 | 12,555 | 4.26% | 349,023 | 18,280 | 5.24% |
| Repurchase Agreements and Other Borrowed Funds | 74,188 | 3,216 | 5.80% | 66,658 | 4,574 | 6.86% |
| Total Interest Bearing Liabilities | 1,657,305 | 36,315 | 2.93% | 1,541,435 | 65,546 | 4.25% |
| Non–interest Bearing Deposits | 247,358 | | | 216,238 | | |
| Other Liabilities | 26,844 | | | 27,847 | | |
| Total Liabilities | 1,931,507 | | | 1,785,520 | | |
| Common Stock | 171 | | | 157 | | |
| Paid-In Capital | 169,789 | | | 152,420 | | |
| Retained Earnings | 16,921 | | | 5,929 | | |
| Accumulated Other Comprehensive Earnings | 5,102 | | | 2,226 | | |
| Total Stockholders' Equity | 191,983 | | | 160,732 | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $2,123,490 | | | $1,946,252 | | |
| Net Interest Income | | $ 64,099 | | | $ 72,374 | |
| Net Interest Spread | | | 3.93% | | | 3.49% |
| Net Interest Margin on average earning assets | | | 4.38% | | | 4.06% |
| Return on Average Assets | | | 1.48% | | | 1.11% |
| Return on Average Equity | | | 16.42% | | | 13.49% |



15) Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement 141, *Business Combinations*, and Statement 142, *Goodwill and Other Intangible Assets*. In October 2002, FASB issued Statement 147, *Acquisitions of Certain Financial Institutions.* Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. However, goodwill recognized in connection with a branch acquisition will follow Statement 147, which states that if certain criteria are met in Statement 147, the amount of unidentifiable intangible asset will be reclassified to goodwill upon adoption of that Statement and follow Statement 142. Prior to October 2002, goodwill associated with branch acquisitions was subject to the provisions of Statement 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*, which required amortization of the unidentifiable intangible asset. In addition, financial institutions meeting the requirements of Statement 147 will be required to restate previously issued financial statements. The objective of that restatement requirement is to present the balance sheet and income statement as if the amount accounted for under Statement 72 as an unidentifiable intangible asset had been reclassified to goodwill as of the date Statement 142 was initially applied. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company adopted the provisions of Statement 141 immediately, and Statement 142 and 144 effective January 1, 2002. Statement 147 was adopted October 1, 2002 and retroactively applied to January 1, 2002.

Statement 141 required upon adoption of Statement 142 that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. The Company was required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption (March 31, 2002). In addition, to the extent an intangible asset was identified as having an indefinite useful life, the Company was required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss would be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement 142 required the Company to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company had up to six months from the date of adoption (June 30, 2002) to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeded its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption (January 1, 2002). This second step, if necessary, is required to be completed as soon as possible, but no later than the end of the year of adoption (December 31, 2002). Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's consolidated statements of operations.



As of September 30, 2002, the Company has identified its reporting units as its banking subsidiaries and has allocated goodwill accordingly. Intangibles with definite useful lives have been re-assessed and the useful lives and residual values were determined to be adequate. Intangibles with indefinite useful lives have been tested for impairment loss. The Company estimated the fair value of each reporting unit, and determined that each unit's fair value exceeds the carrying value of each reporting unit, and consequently no impairment is evident at this time. The Company has evaluated the goodwill recognized in connection with branch acquisitions and determined that it meets the criteria of statement 147, and therefore the unidentifiable intangible asset has been reclassified to goodwill and is subject to Statement 142. The reclassification was retroactively applied to January 1, 2002, which resulted in the restatement of previously filed financial statements. On an annual basis, prior to the end of the third quarter, the Company will revaluate the useful lives, residual value, and test goodwill for impairment, as required by Statement 142.

The following table sets forth information regarding the Company's core deposit intangibles and mortgage servicing rights:

| (Dollars in thousands) | Core Deposit Intangible | Mortgage Servicing Rights(1) | Total |
|---|---|---|---|
| Gross carrying value | $ 9,836 | | |
| Accumulated Amortization | (2,655) | | |
| Net carrying value | $ 7,181 | 2,188 | 9,299 |
| **Weighted–Average amortization period** | | | |
| (Period in years) | 10.0 | 8.8 | 9.7 |
| **Aggregate Amortization Expense** | | | |
| For the three months ended September 30, 2002 | $ 359 | 115 | 474 |
| For the nine months ended September 30, 2002 | $ 1,080 | 301 | 1,381 |
| **Estimated Amortization Expense** | | | |
| For the year ended December 31, 2002 | $ 1,439 | 294 | 1,733 |
| For the year ended December 31, 2003 | 1,219 | 280 | 1,499 |
| For the year ended December 31, 2004 | 1,011 | 267 | 1,278 |
| For the year ended December 31, 2005 | 847 | 253 | 1,100 |
| For the year ended December 31, 2006 | 779 | 239 | 1,018 |

(1) Gross carrying value and accumulated amortization are not readily available



The changes in the carrying amount of goodwill for the nine months ended September 30, 2002 are as follows.

| (Dollars in thousands) | Balance At 12/31/2001 | Goodwill Adjustments 2002(1) | Balance At 9/30/2002 |
|---|---|---|---|
| Parent | $ 2,151 | (2,151) | — |
| Glacier Bank | 4,074 | 10 | 4,084 |
| First Security | 3,796 | 861 | 4,657 |

| | | | |
|---|---|---|---|
| Western | 4,193 | (345) | 3,848 |
| Mountain | 16,818 | — | 16,818 |
| Big Sky | 1,752 | — | 1,752 |
| Valley | 726 | 1,044 | 1,770 |
| Whitefish | — | 260 | 260 |
| | $33,510 | (321) | 33,189 |

(1) Adjustments are purchase accounting adjustments and recovery of contingencies related to the WesterFed Financial Corporation acquisition on February 28, 2001 and reclassification of goodwill from the parent to the apropriate subsidiary.

The following pro forma information presents the consolidated results of operations as if the adoption of Statement 142 and 147 had occurred on January 1, 2001. The table is for comparison purposes only:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2002 | 2001 | 2002 | 2001 |
| Reported net income | $8,616 | 5,707 | 23,641 | 15,229 |
| Add back goodwill amortization, net of tax | — | 395 | — | 995 |
| Adjusted net income | $8,616 | 6,102 | 23,641 | 16,224 |

| | For the Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| | Basic EPS | Diluted EPS | Basic EPS | Diluted EPS |
| Reported net income | $0.50 | 0.49 | 0.34 | 0.33 |
| Add back goodwill amortization, net of tax | — | — | 0.03 | 0.03 |
| Adjusted net income | $0.50 | 0.49 | 0.37 | 0.36 |

| | For the Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| | Basic EPS | Diluted EPS | Basic EPS | Diluted EPS |
| Reported net income | $1.38 | 1.36 | 0.99 | 0.96 |
| Add back goodwill amortization, net of tax | — | — | 0.07 | 0.07 |
| Adjusted net income | $1.38 | 1.36 | 1.06 | 1.03 |



The following table illustrates the affect of the adoption of Statement 147, which was retroactively applied to January 1, 2002.

| (Dollars in thousands) | Three months ended Mar 31, 2002 | Three months ended June 30, 2002 | Six months ended June 30, 2002 |
|---|---|---|---|
| Reported net income | $6,748 | 7,979 | 14,727 |
| Add back goodwill amortization, net of tax | 149 | 149 | 298 |
| Adjusted net income | $6,897 | 8,128 | 15,025 |

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

<u>Financial Condition</u>

This section discusses the changes in Statement of Financial Condition items from September 30, 2001 and December 31, 2001, to September 30, 2002.

| **Assets ($ in thousands)** | September 30, 2002 | December 31, 2001 | September 30, 2001 | $ change from December 31, 2001 | $ change from September 30, 2001 |
|---|---|---|---|---|---|
| Cash on hand and in banks | $ 62,723 | 73,456 | 64,064 | (10,733) | (1,341) |
| Investment securities and interest bearing deposits | 673,885 | 532,548 | 510,530 | 141,337 | 163,355 |

| | | | | | |
|---|---|---|---|---|---|
| Loans: | | | | | |
| Real estate | 383,890 | 421,996 | 441,232 | (38,106) | (57,342) |
| Commercial and Agricultural | 674,139 | 620,134 | 627,110 | 54,005 | 47,029 |
| Consumer | 291,164 | 298,851 | 308,010 | (7,687) | (16,846) |
| Total loans | 1,349,193 | 1,340,981 | 1,376,352 | 8,212 | (27,159) |
| Allowance for loan losses | (21,342) | (18,654) | (18,528) | (2,688) | (2,814) |
| Total loans net of allowance for loan losses | 1,327,851 | 1,322,327 | 1,357,824 | 5,524 | (29,973) |
| Other assets | 159,355 | 157,416 | 162,547 | 1,939 | (3,192) |
| Total Assets | $2,223,814 | 2,085,747 | 2,094,965 | 138,067 | 128,849 |

At September 30, 2002 total assets were $2.224 billion which is $129 million larger than the September 30, 2001 assets of $2.095 billion, an increase of 6 percent. Total assets have increased $138 million from December 31, 2001.

Total loans, net of the allowance for loan losses, have decreased $30 million from September 30, 2001. With lower interest rates during the past year a large number of real estate loans have been refinanced, which coupled with our decision to sell the majority of the real estate loan production, has resulted in a reduction in real estate loans of $57 million. Total loans, net of the allowance for loan losses, have increased $6 million from December 31, 2001, partly due to the increase in commercial loans which have increased $54 million and continue to be the lending focus. Consumer loans have declined $17 million, since September 30, 2001, of which $8 million of the decline occurred in 2002, with a significant portion of the decline attributed to the planned runoff in the WesterFed auto dealer originated consumer loans. We are focusing on home-equity loans as the primary source for the consumer loan portfolio.

Investment securities, including interest bearing deposits in other financial institutions, have increased $163 million from September 30, 2001, of which $141 million occurred in 2002. Much of the cash received from the reduction in real estate loans has been redeployed in mortgage related investment securities with characteristics that result in less interest rate risk than retaining 30 year loans.



The Company typically sells a majority of mortgage loans originated, retaining servicing only on loans sold to certain lenders. The sale of loans in the secondary mortgage market reduces the Company’s risk of increases in interest rates of holding long-term, fixed rate loans in the loan portfolio. The Company has also been active in generating commercial SBA loans. A portion of some of those loans are sold to other investors. The amount of loans sold and serviced for others on September 30, 2002 was approximately $265 million.

| **Liabilities ($ in thousands)** | September 30, 2002 | December 31, 2001 | September 30, 2001 | $ change from December 31, 2001 | $ change from September 30, 2001 |
|---|---|---|---|---|---|
| Deposits — non–interest bearing | $ 292,653 | 234,318 | 244,450 | 58,335 | 48,203 |
| Deposits — interest bearing | 1,206,000 | 1,211,746 | 1,209,469 | (5,746) | (3,469) |
| Advances from Federal Home Loan Bank | 402,367 | 367,295 | 360,654 | 35,072 | 41,713 |
| Other borrowed funds | 50,371 | 33,645 | 41,412 | 16,726 | 8,959 |
| Other liabilities | 31,231 | 26,760 | 32,385 | 4,471 | (1,154) |
| Trust preferred securities | 35,000 | 35,000 | 35,000 | — | — |
| Total liabilities | $2,017,622 | 1,908,764 | 1,963,370 | 108,858 | 94,252 |

Total deposits have increased $45 and $53 million from September 30, 2001 and December 31, 2001, respectively. Non-interest bearing deposits are up $48 million, or 20 percent, and interest-bearing deposits are down $3 million from September 30, 2001. Federal home loan bank advances, other borrowed funds, and repurchase agreements, have also increased $51 million from September 30, 2001.

Liquidity and Capital Resources

The objective of liquidity management is to maintain cash flows adequate to meet current and future needs for credit demand, deposit withdrawals, maturing liabilities and corporate operating expenses. The principal source of the Company’s cash revenues is the dividends received from the Company’s banking subsidiaries. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends which would constitute an unsafe or unsound banking practice. The subsidiaries source of funds is generated by deposits, principal and interest payments on loans, sale of loans and securities, short and long-term borrowings, and net income. In addition, all seven banking subsidiaries are members of the FHLB. As of September 30, 2002, the Company had $761 million of available FHLB line of which $402 million was utilized. Accordingly, management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each individual institution as well as the Company as a whole. During 2002, all seven financial institutions maintained liquidity and regulatory capital levels in excess of regulatory requirements and operational needs.

Commitments

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



| **Stockholders’ equity ($ in thousands except per share data)** | September 30, 2002 | December 31, 2001 | September 30, 2001 | $ change from December 31, 2001 | $ change from September 30, 2001 |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Common equity | $194,541 | 175,227 | 167,312 | 19,314 | 27,229 |
| Net unrealized gain on securities | 11,651 | 1,756 | 4,283 | 9,895 | 7,368 |
| Total stockholders’ equity | $206,192 | 176,983 | 171,595 | 29,209 | 34,597 |
| Stockholders’ equity to total assets | 9.27% | 8.49% | 8.19% | | |
| Tangible equity to total assets | 7.59% | 6.62% | 6.22% | | |
| Book value per common share | $ 11.97 | 10.49 | 10.26 | 1.48 | 1.71 |
| Tangible book value per common share | $ 9.63 | 8.01 | 7.63 | 1.62 | 2.00 |

Each of the equity ratios and book value per share amounts have increased substantially from the prior year, primarily the result of earnings retention, stock options exercised, and net unrealized gains on securities. Our equity to asset ratio is near historic highs for the Company.

| Credit quality information ($ in thousands) | September 30, 2002 | June 30, 2002 | December 31, 2001 | September 30, 2001 |
|---|---|---|---|---|
| Allowance for loan losses | $21,342 | 19,941 | 18,654 | 18,528 |
| Non–performing assets | $10,960 | 9,214 | 11,262 | 11,089 |
| Allowance as a percentage of non performing assets | 194.73% | 216.42% | 165.64% | 167.08% |
| Non–performing assets as a percentage of total assets | 0.49% | 0.43% | 0.53% | 0.53% |
| Allowance as a percentage of total loans | 1.58% | 1.52% | 1.39% | 1.35% |

Allowance for Loan Loss and Non-Performing Assets

Non-performing assets as a percentage of total assets at September 30, 2002 were .49 percent versus .53 percent at the same time last year, which compares to the Peer Group average of .63 percent at June 30, 2002, the most recent information available. The allowance for loan losses was 195 percent of non-performing assets at September 30, 2002, up from 167 percent a year ago.

With the continuing change in loan mix from residential real estate to commercial and consumer loans, which historically have greater credit risk, the Company has increased the balance in the allowance for loan losses account. The allowance balance has increased $2.814 million, or 15 percent over September 30, 2001, to $21.342 million, which is 1.58 percent of total loans outstanding, up from 1.35 percent a year ago and 1.39 percent at December 31, 2001. The third quarter provision expense for loan losses was $1.665 million, an increase of $659 thousand from the same quarter in 2001.

The 2002 provision expense for loan losses through September was $4.225 million which is an increase of $796 thousand over the first nine months of 2001. The reserve has increased because of the increased percentage of commercial loans which historically carry a higher risk profile than residential real estate loans which now comprise a smaller percentage of the loans outstanding. Net charged off loans as a percentage of loans outstanding were .11 for the first nine months of 2002 which is down from .12 for the same period in 2001.



Critical Accounting Policies

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

Results of Operations – The three months ended September 30, 2002 compared to the three months ended September 30, 2001.

| Revenue summary ($ in thousands) | Three months ended September 30, 2002 | 2001 | $ change | % change |
|---|---|---|---|---|
| Net interest income | $22,131 | 19,199 | 2,932 | 15.3% |
| Fees and other revenue: | | | | |
| Service charges, loan fees, and other fees | 4,757 | 4,265 | 492 | 11.5% |
| Gain on sale of loans | 1,225 | 1,111 | 114 | 10.3% |
| Other income | 475 | 419 | 56 | 13.4% |
| Total non–interest income | 6,457 | 5,795 | 662 | 11.4% |
| Total revenue | $28,588 | 24,994 | 3,594 | 14.4% |
| Tax equivilent net interest margin | 4.58% | 3.93% | | |

Net Interest Income

Net interest income for the quarter increased $2.932 million, or 15 percent, over the same period in 2001. Total interest income is $3.271 million, or 9 percent lower that the same quarter in 2001, while total interest expense is $6.203 million, or 35 percent lower. The increase in non-interest bearing deposits contributed to the reduced interest expense. Lower interest rates in 2002 have also reduced interest income and interest expense. The net interest margin as a percentage of earning assets, on a tax equivalent basis, increased from 3.9 percent for the 2001 quarter to 4.6 percent in 2002. The net interest margin for the third quarter was the same as the prior quarter and an increase over the 4.4 percent margin in the first quarter of 2002.

Non-interest Income

Fee income increased 12 percent over the same period last year, driven primarily by increased deposit account activity, increases in service fee rates, and interchange fees on electronic check cards. The increase in gain on sale of loans reflects the low level of mortgage rates and resulting purchase and refinancing activity. Other non-interest income increases were from a variety of volume related activity increases over this quarter of last year.



| **Non–interest expense summary ($ in thousands)** | Three months ended September 30, | | | |
|---|---|---|---|---|
| | 2002 | 2001 | $ change | % change |
| Compensation and employee benefits | $ 7,541 | 7,392 | 149 | 2.0% |
| Occupancy and equipment expense | 2,340 | 2,187 | 153 | 7.0% |
| Outsourced data processing expense | 547 | 707 | (160) | -22.6% |
| Core deposit intangible amortization | 359 | 383 | (24) | -6.3% |
| Goodwill amortization | — | 492 | (492) | -100.0% |
| Other expenses | 3,209 | 3,948 | (739) | -18.7% |
| Total non–interest expense | $13,996 | 15,109 | (1,113) | -7.4% |

Non-interest Expense

Non-interest expense decreased by $1.113 million, or 7 percent, from the same quarter of 2001, however, 2001 includes $325 thousand in merger and conversion expense, and $492 thousand in goodwill amortization. The decrease in goodwill amortization is the result of the adoption of Statement of Financial Accounting Standards 142 and 147, see footnote 15 for further information. During the third quarter of 2002 there was a $323 thousand reversal of a merger related accrual, so non-interest expense from operations is $27 thousand higher than last year. During the third quarter of 2001 the data processing functions for Western Security Bank were converted to our in-house system. This has reduced the outsourced data processing costs and increased compensation and benefits expense. Compensation and benefit expense has increased $149 thousand, or 2 percent from the third quarter of 2001. Core deposit intangible asset amortization was $359 thousand which is a decrease of $24 thousand from the prior year. The efficiency ratio (non-interest expense/net interest income + non-interest income) was 49 percent ratio for the 2002 quarter which is an improvement over the 60 percent ratio for the quarter in 2001.

Results of Operations – The nine months ended September 30, 2002 compared to the nine months ended September 30, 2001.

| **Revenue Summary ($ in thousands)** | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2002 | 2001 | $ change | % change |
| Net interest income | $64,099 | 51,428 | 12,671 | 24.6% |
| Fees and other revenue: | | | | |
| Service charges, loan fees, and other fees | 13,388 | 11,737 | 1,651 | 14.1% |
| Gain on sale of loans | 3,497 | 2,766 | 731 | 26.4% |
| Other income | 1,755 | 2,173 | (418) | -19.2% |
| Total non–interest income | 18,640 | 16,676 | 1,964 | 11.8% |
| Total revenue | $82,739 | 68,104 | 14,635 | 21.5% |
| Tax equivilent net interest margin | 4.52% | 3.99% | | |

Net Interest Income

Net interest income for the nine months ended September 30, 2002 was $64.099 million, an increase of $12.671 million, or 25 percent over the same nine months of 2001. The WesterFed acquisition on February 28, 2001, and the Idaho and Utah branch acquisitions in March 2001 are the primary reasons for the increase. Interest income has decreased $1.724 million, or 2 percent, while interest expense has declined $14.395 million, or 28 percent. The increase in non-interest bearing deposits and significant reductions in rates paid on deposits and borrowed funds, are the primary reasons for the decreased interest expense. As a percentage of earning assets, on a tax equivalent basis, the year-to-date interest margin has improved from 4.0 percent to 4.5 percent.



Non-interest Income

Fee income increased $1.651 million, or 14 percent, primarily the result of the acquisition in the later part of the first quarter in 2001. Gain on sale of loans increased $731 thousand, or 26 percent. Mortgage interest rates have been very attractive to consumers during the past year and have led to higher levels of mortgage originations from both purchases and refinances. Included in other income in 2001 was a $511 thousand gain-on-sale of the Glacier Bank Cut Bank office, as a result other income was $93 thousand higher this year.

Nine months ended September 30,

**Non–interest expense summary**
**($ in thousands)**

| | 2002 | 2001 | $ change | % change |
|---|---|---|---|---|
| Compensation and employee benefits | $22,856 | 20,182 | 2,674 | 13.2% |
| Occupancy and equipment expense | 6,965 | 6,147 | 818 | 13.3% |
| Outsourced data processing expense | 1,508 | 2,007 | (499) | -24.9% |
| Core deposit intangible amortization | 1,080 | 957 | 123 | 12.9% |
| Goodwill amortization | — | 1,229 | (1,229) | -100.0% |
| Other expenses | 10,294 | 10,462 | (168) | -1.6% |
| Total non–interest expense | $42,703 | 40,984 | 1,719 | 4.2% |

Non-interest Expense
Non-interest expense increased $1.719 million, or 4 percent, over 2001, however, 2001 also includes $1.250 million in merger and conversion expense, and goodwill amortization of $1.229 million, and 2002 includes a reversal of a merger related accrual of $323 thousand, so non-interest expense from operations has increased $4.521 million over last year. The 2001 acquisitions are much of the reason for this increase. The decrease in goodwill amortization is the result of the adoption of Statement of Financial Accounting Standards 142 and 147, see footnote 15 for further information. During the third quarter of 2001 the data processing functions for Western Security Bank were converted to the in-house system. This has reduced the outsourced data processing costs and increased compensation and benefits expense. Core deposit asset amortization was $1.080 million, which is an increase of $123 thousand. The efficiency ratio in 2002 is 52 percent which is an improvement over the 60 percent ratio in 2001.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

Market Risk:
Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices such as interest rates, foreign currency exchange rates, commodity prices, and equity prices. The Company's primary market risk exposure is interest rate risk. The ongoing monitoring and management of this risk is an important component of the Company's asset/liability management process which is governed by policies established by its Board of Directors that are reviewed and approved annually. The Board of Directors delegates responsibility for carrying out the asset/liability management policies to the Asset/Liability Committee (ALCO). In this capacity ALCO develops guidelines and strategies impacting the Company's asset/liability management related activities based upon estimated market risk sensitivity, policy limits and overall market interest rate levels/trends.

Interest Rate Risk:
Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change the interest income and expense streams associated with the Company's financial instruments also change thereby impacting net interest income (NII), the primary component of the Company's earnings. ALCO utilizes the results of a detailed and dynamic simulation model to quantify the estimated exposure of NII to sustained interest rate changes. While ALCO routinely monitors simulated NII sensitivity over a rolling two-year horizon, it also utilizes additional tools to monitor potential longer-term interest rate risk.



The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all assets and liabilities reflected on the Company's balance sheet. This sensitivity analysis is compared to ALCO policy limits which specify a maximum tolerance level for NII exposure over a one year horizon, assuming no balance sheet growth, given a 200 basis point (bp) upward and 100 bp downward shift in interest rates. A parallel and pro rata shift in rates over a 12 month period is assumed. The following reflects the Company's NII sensitivity analysis as of June 30, 2002, the most recent information available, as compared to the 10% Board approved policy limit (dollars in thousands). There have been no significant changes in operation or the market that would materially affect the estimated sensitivity. The table illustrates the estimated change in net interest income over a twelve month period based on the nine months activity ended September 30, 2002.

| Interest Rate Sensitivity | +200 bp | -100 bp |
|---|---|---|
| Estimated sensitivity | -2.58% | 0.80% |
| Estimated increase (decrease) in net interest income | $(2,205) | 684 |

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of assets and liability cashflows, and others. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences might change.

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to: prepayment/refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal/external variables. Furthermore, the sensitivity analysis does not reflect actions that ALCO might take in responding to or anticipating changes in interest rates.

**Item 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures
The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-14(c) and 15d-14(c)) as of a date within 90 days before the filing date of this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective and timely, providing them with material information relating to the Company required to be disclosed in the reports we file or submit under the Exchange act.

Changes in Internal Controls
There have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. We are not aware of any significant deficiencies or material weaknesses, therefore no corrective actions were taken.

## PART II – OTHER INFORMATION

**Item 1. Legal Proceedings**

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



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**Item 2. Changes in Securities and Use of Proceeds**

None

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Securities Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K.**

(a) Exhibits

Exhibit 99 – Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002

(b) Current Report on Form 8-K

None

**SIGNATURES**

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

**GLACIER BANCORP, INC.**

November 11, 2002

By: /s/ Michael J. Blodnick

Michael J. Blodnick
President/CEO

November 11, 2002

By: /s/ James H. Strosahl

James H. Strosahl
Executive Vice President/CFO



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I, Michael J. Blodnick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Glacier Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 11, 2002

By: /s/ Michael J. Blodnick

Michael J. Blodnick
President/CEO



I, James H. Strosahl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Glacier Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 11, 2002

By: /s/ James H. Strosahl

James H. Strosahl
Executive Vice President/CFO

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TOSECTION**
**906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Glacier Bancorp, Inc. (the “Company”) on form 10-Q for the period ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Michael J. Blodnick, President and Chief Executive Officer, and James H. Strosahl, Executive Vice President and Chief Financial Officer, of Glacier Bancorp, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 11, 2002

By: /s/ Michael J. Blodnick

Michael J. Blodnick
President/CEO

By: /s/ James H. Strosahl

James H. Strosahl
Executive Vice President/CFO