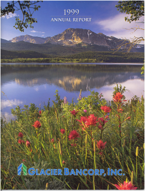
1999
ANNUAL REPORT



GLACIER BANCORP, INC.

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CORPORATE PROFILE

Glacier Bancorp, Inc., (the Company) is a multibank holding company, headquartered in Kalispell, Montana and operating six principal subsidiaries: Glacier Bank (wholly owned), with nine offices in northwestern Montana, one office in southwestern Montana, one office in west central Montana; First Security Bank of Missoula (wholly owned), with three offices in western Montana; Glacier Bank of Whitefish (94% ownership) in northwestern Montana; Glacier Bank of Eureka, (98% ownership) also in northwestern Montana; Valley Bank of Helena (wholly owned) with three offices in south central Montana, and Big Sky Western Bank (wholly owned) with three offices in south central Montana. The six subsidiaries are members of the Federal Deposit Insurance Corporation (FDIC) and all six subsidiaries are members of the Federal Home Loan Bank of Seattle and the Federal Reserve Bank of Minneapolis. The Company also operates a wholly owned subsidiary, Community First, Inc., which offers full service brokerage services through Raymond James Financial Services.

Stock Transfer Agent and Registrar
Davidson Trust Co.
P.O. Box 3209
Great Falls, MT 59403

Stock Listing
Glacier Bancorp, Inc. Common Stock trades over-the-counter on the NASDAQ National Market System under the symbol GBCI.

CORPORATE INFORMATION

Corporate Headquarters
49 Commons Loop
Kalispell, MT 59901 (406) 756-4200

Board of Directors:
John S. MacMillan, Chairman
Michael J. Blodnick
William L. Bouchee
Allen J. Fetscher
Fred J. Flanders
Jon W. Hippler
L. Peter Larson
F. Charles Mercord
Everit A. Sliter
Harold A. Tutvedt

Corporate Officers:
Michael J. Blodnick
President/CEO

James H. Strosahl
EVP/CFO/Secretary/Treasurer

Thomas E. Anderson
VP/Controller

Independent Auditors
KPMG LLP
P.O. Box 7108
Billings, MT 59103

Legal Counsel
Hash and O'Brien PLLP
136 First Avenue West
Kalispell, MT 59901-4442

Form 10-K
The Company's Annual Report of Form 10-K is available on written request at no charge to beneficial owners of the Company's stock. Requests should be directed to: James H. Strosahl, EVP/CFO
Glacier Bancorp, Inc.
49 Commons Loop
Kalispell, MT 59901

Cover photo by: Doug Dye
Curly Bear Mountain behind St. Mary Lake
in Glacier National Park, Montana

Stock and Dividend Information

1999 Cash Dividend Data (1)

Quarter	Record Date	Payment Date	Share Amount
1	April 13, 1999	April 22, 1999	$0.14
2	July 13, 1999	July 22, 1999	$0.15
3	October 12, 1999	October 21, 1999	$0.15
4	January 11, 2000	January 20, 2000	$0.20

Anticipated Dividend Dates 2000 (*)

Quarter	Record Date	Payment Date
1	April 11, 2000	April 20, 2000
2	July 11, 2000	July 20, 2000
3	October 10, 2000	October 19, 2000
4	January 9, 2001	January 18, 2001

(*) Subject to approval by Board of Directors.

Common Stock Price (1)

	1999	1998	1997	1996	1995	1994
High.......................................	$23.88	$24.38	$20.66	$13.91	$11.02	$10.36
Low...	$14.88	$17.16	$12.60	$9.77	$7.51	$7.97
Close.......................................	$16.13	$20.00	$20.66	$13.50	$10.09	$8.35
Price/Earnings (2)..................	12.6	15.4	16.7	13.1	9.4	8.9

(1) Restated for stock dividends and stock splits.
(2) Based on closing stock price and basic earnings per share as of and for the year ended December 31.

Ten-year Dividend History

Year	Cash Dividends Declared (1)	Stock Dividends/Splits	Distribution Date of Stock Dividends/Splits
1990	$0.16	-	-
1991	$0.15	-	-
1992	$0.19	10% Stock Dividend	May 28, 1992
1993	$0.23	10% Stock Dividend	May 28, 1993
1994	$0.27	10% Stock Dividend	May 26, 1994
1995	$0.31	10% Stock Dividend	May 25, 1995
1996	$0.35	10% Stock Dividend	May 23, 1996
1997	$0.43	3 for 2 stock split	May 27, 1997
1998	$0.52	10% Stock Dividend	October 1, 1998
1999	$0.64	10% Stock Dividend	May 27, 1999

(1) Restated for stock dividends and stock splits.

Ten-year compound annual dividend growth rate is 15.66%.

Ten-year compound total return is 27.16%.

Shareholders may reinvest their dividends and make additional cash purchases of Glacier Bancorp, Inc. common stock by participating in the company's dividend reinvestment plan. Please call 406-756-4200 for information and to request a prospectus.

Summary of Operations and Selected Financial Data

(dollars in thousands , except per share data)		At December 31, 1999	1998	1997	1996	1995
Summary of Financial Condition:						
Total assets	$	**884,117**	705,966	681,391	631,710	566,082
Investment securities		**53,587**	58,890	58,417	75,627	70,217
Mortgage-backed securities		**137,798**	46,596	63,737	47,579	39,368
Loans receivable		**596,346**	523,341	490,751	451,228	401,886
Allowance for loan losses		**(6,068)**	(5,133)	(4,279)	(3,887)	(3,652)
Deposits		**576,282**	475,844	429,798	395,611	350,939
Advances		**194,650**	124,886	145,660	150,116	125,265
Other borrowed funds and repurchase agreements		**26,614**	18,707	29,960	17,871	23,839
Stockholders' equity		**78,813**	77,810	67,702	58,225	52,503
Equity per common share*		**8.25**	8.22	7.38	6.52	5.85
Equity as a percentage of total assets		**8.91%**	11.02%	9.94%	9.22%	9.27%

(dollars in thousands, except per share data)		Years ended December 31, 1999	1998	1997	1996	1995
Summary of Operations:						
Interest income	$	**58,921**	53,721	51,686	47,697	42,358
Interest expense		**25,592**	23,550	23,296	21,426	18,346
Net interest income		**33,329**	30,171	28,390	26,271	24,012
Provision for loan losses		**1,506**	1,532	889	949	611
Non-interest income		**11,064**	11,959	10,135	9,825	8,860
Non-interest expense		**24,077**	23,285	21,427	21,158	17,733
Earnings before income taxes		**18,810**	17,313	16,209	13,989	14,528
Income taxes		**6,631**	6,398	5,973	5,662	5,688
Net earnings		**12,179**	10,915	10,236	8,327	8,840
Basic earnings per common share*		**1.28**	1.17	1.12	0.94	0.98
Diluted earnings per common share*		**1.27**	1.15	1.10	0.92	0.98
Dividends declared per share*		**0.64**	0.52	0.43	0.35	0.31

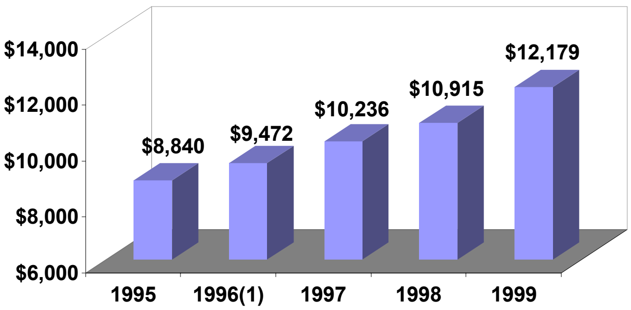
	Years ended and at December 31, 1999	1998	1997	1996	1995
Ratios:					
Net earnings as a percent of					
average assets	**1.54%**	1.56%	1.55%	1.38%	1.69%
average stockholders' equity	**15.55%**	15.00%	16.26%	15.04%	18.35%
Net interest margin on average earning assets (tax equivalent)	**4.58%**	4.79%	4.72%	4.76%	4.97%
Allowance for loan losses as a percent of loans	**1.02%**	0.98%	0.87%	0.86%	0.91%
Allowance for loan losses as a percent of nonperforming assets	**269%**	184%	264%	181%	334%

(dollars in thousands)		Years ended and at December 31, 1999	1998	1997	1996	1995
Other Data:						
Loans originated and purchased	$	490,404	394,799	265,759	314,213	254,950
Loans serviced for others	$	129,666	123,741	128,250	124,619	112,024
Number of full time equivalent employees		363	351	307	327	301
Number of offices		26	23	23	21	18
Number of shareholders of record		1,212	929	772	758	739

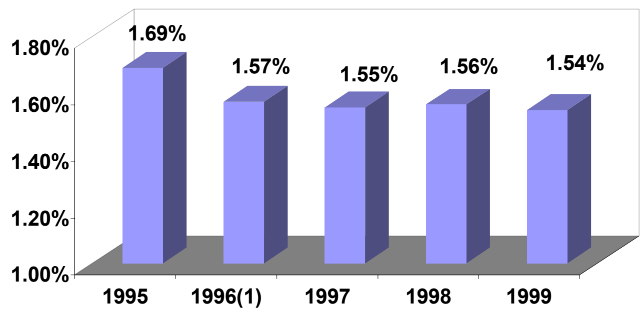
*revised for stock splits and dividends

All amounts have been restated to include mergers using the pooling of interests accounting method and includes the impact of purchasing minority interest in Valley Bank in 1998 and two Butte, Montana branches in 1999.

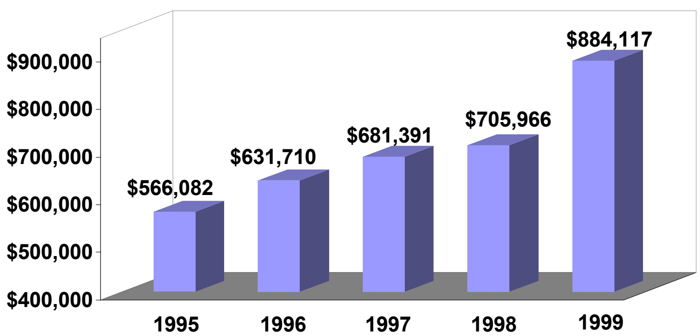
Net Income



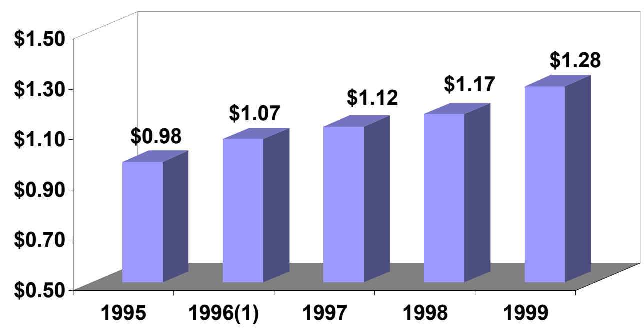
Return on Average Assets



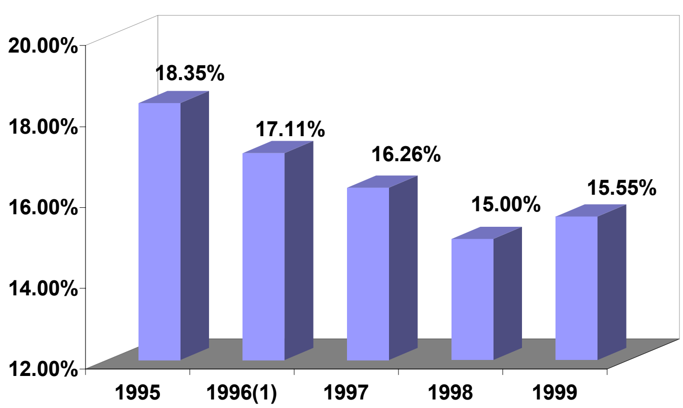
Asset Growth



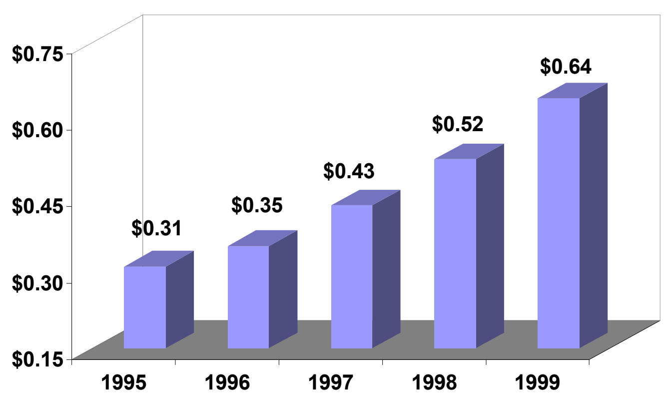
Basic Earnings Per Share



Return on Average Equity



Dividends per Common Share



(1) Without non-recurring merger and SAIF expense

LETTER TO SHAREHOLDERS

December 31, 1999

Dear Shareholders,

We live in exciting times. Changes are taking place around us which only a few short years ago seemed impossible. Technology is affecting each of our lives like we never before imagined. In this rapidly changing economy and environment, Glacier remains strong--stronger than we've ever been.

Our strength comes from over 500 staff members and directors who are *simply the best*. They are the best people providing the best care to our customers and service to our communities. It is this commitment to serve that makes us unique, that makes us profitable, that makes us strong.

This past year we celebrated fifteen years as a public company with one of the best years in our history in terms of financial performance. We had record earnings for the year of $12,179,000, up 12 percent over 1998's $10,915,000. Our return on average assets was 1.54 percent and return on average equity was 15.55 percent, both in a year where the Federal Reserve increased short-term rates three times and long-term rates increased significantly.

We have been able to consistently perform well regardless of which direction the economy or interest rates are moving. By using a state of the art asset-liability model in conjunction with a strategy of reduced reliance on long-term fixed rate loans, our exposure to interest rate movements up or down is negligible. Our strategic plan does not include attempting to second guess the direction interest rates might be moving. Instead, we use the best information available to us, make logical and conservative assumptions and are ready to adjust quickly to whatever opportunities the market presents to us. This flexibility has served us well in the past and we expect it to continue to do so in the future.

Consistent high level performance is what we strive to achieve. It's what Glacier shareholders have come to expect. We are proud of the superior returns we have produced over the past ten years. Our compounded total annual return to shareholders during this period was 27 percent. Glacier has delivered average annual earnings per share increases of over 10 percent. One hundred shares of stock fifteen years ago now has grown to 980 shares. Our strong performance has supported four three-for-two stock splits and seven 10 percent stock dividends, the latest of which was issued in May of 1999. During this time we raised the cash dividend 25 times, two of which were posted in 1999. Last year we increased the amount of the cash dividend 23 percent and for the past ten years we have averaged a 16 percent increase each year. A shareholder who invested $10,000 15 years ago when we first became a public company now has an investment worth $232,736. In addition, we paid $44,708 in cash dividends over the same time period. No one can guarantee this same level of performance in the future. The milestones we have been able to achieve in the past were lofty, but they can be improved upon as we move forward. Our strength is our ability to react to all types of economic conditions and competitive challenges and find a way to win. Our people will make it happen, they always do.

Although Glacier reported all time record earnings in 1999, the past six months have not been kind to the price and valuation multiples of bank stocks. Rising interest rates and high expectations for other sectors (e.g. technology) have dampened investor enthusiasm for our industry. Bank stocks had one of their worst performances in a decade this past year. Although bank stocks were one of the best performing sectors throughout most of the 1990s, the industry underperformed all of the market averages miserably last year. Glacier in this respect mirrored the rest of the industry. Even though shifts in interest rates up or down have only a modest impact on our earnings, investors continue to associate higher interest rates with negative bank performance in the form of lower loan volume and higher loan loss activity. These perceptions are unfortunate. Nonetheless, they have had a significant impact on Glacier's stock price the past six months. Interest rate cycles come and go and remain outside of our control. We must, however, keep focused on what we do control, our asset quality, our efficiency, our sales effort and our customer care. In these areas we can and will continue to get better.

It is amazing and tremendously satisfying to reflect back on all we accomplished this past year.

Sometimes the hours worked and effort put forth appear to go unnoticed. However, what we completed could not have been done without the willingness and commitment we received from our staff and directors.

The year began on a high note with the completion of our merger with Big Sky Western Bank. This gave us a presence in the growing Gallatin Valley and was the third bank to join Glacier in the past two years. Big Sky Western Bank this year doubled its asset base. In the process they opened a temporary facility in Bozeman while they await their new permanent building scheduled for completion in April 2000. They have assembled a team which has exceeded all our expectations. We look for more good things to come from Big Sky Western Bank in the years to come.

In May we announced the purchase of two branches in Butte, Montana from Washington Mutual. This transaction accomplished two things. First, we acquired $73 million in deposits as a low cost source of additional funding. In addition, it gave us a major presence in the Butte market and further enhanced our western Montana franchise. These two offices, thanks to the hard work of countless individuals, were fully integrated and became a part of Glacier Bank in October at the time we closed the transaction. Not only did this satisfy a strategic need; it also introduced two new business lines we had previously not offered, both we feel demonstrate a great deal of potential as added sources of fee income.

In September we signed a definitive agreement to merge with Mountain West Bank in Coeur d'Alene, Idaho. We closed the deal the first week of February 2000. This was our first merger outside the state of Montana and gives us a foothold in two of the fastest growing communities in the Northwest. This was important to us strategically. It expanded our geographic presence and opens up new opportunities for growth in other areas throughout the Northwest. In addition to their presence in Coeur d'Alene and Boise, Mountain West recently purchased a loan production operation in Sun Valley. They have spent the past six years building their branch system and are now positioned to leverage this infrastructure and the talented people they have assembled.

From a merger and acquisition perspective, 1999 was a very busy and productive year. Over $200 million was added to Glacier's asset base as a result of these three transactions. However, that was not the reason we worked so hard to complete these transactions. We pursued these opportunities not because they made us bigger, but instead, because they made us better.

In June two more good things happened. We were chosen to be added to the Russell 2000 Index. This provides Glacier increased awareness and exposure to analysts, money managers and a broader base of investors. Also, for the second year in a row we were named to the TOP 10 among mid-sized banking companies in the country by *U.S. Banker* magazine. This honor truly belongs to our entire staff whose hard work, dedication and the commitment they give every day assures the highest standards of excellence in our performance.

In November we completed construction of a state-of-the-art data center located in Helena, Montana. We spent $2 million equipping this facility with the necessary hardware and software to take us into the 21st century. An advanced image processing system gives us tremendous productivity and efficiency. We can now service many of our customers' needs in a fraction of the time it took in the past. Our home banking and cash management systems are totally Internet based. They provide our customers access to their account information and other on-line capabilities which are simple to use and secure. The response to these new Internet based products has been nothing short of phenomenal. Technology for us is the great equalizer. It becomes less expensive and more functional every day. Yet we are truly just beginning to understand and capture the endless opportunities we now possess. This past year the technology was put in place, now we will only be limited by our own creativity as to how we tap this remarkable resource.

In 1999 First Security Bank again was the number one Small Business lender in the state of Montana. This honor underscores the commitment to the business community of Missoula. Glacier Bank of Kalispell ranked number two in the state last year in the number of S.B.A. loans approved. Valley Bank of Helena ranked seventh. Mountain West Bank was third in the state of Idaho. We are proud of these rankings but more important are the opportunities they have created for countless small business owners throughout Montana and Idaho. S.B.A. is another great tool that helps our lenders meet the needs of their business customers.

As we reflect back on 1999, we are probably most proud of the exceptional quality of our loan portfolio. Total loans increased 14 percent during the year. Non-performing loans during this same time period decreased by 19 percent. As a result, our reserves covered our non-performing loans 2.69 times, or a 46 percent increase over the prior year. In February 2000 this country eclipsed the longest economic expansion in its history. Although no one knows when these good times will end, at some point in time we expect this will occur. During the next economic downturn, as in past cycles, asset quality will once again take center stage. There is no better time than now when things are good to make sure we remain diligent and steadfast in the way we analyze and underwrite our loan portfolio. We are currently engaged in a project with all the affiliate banks to enhance both our loan policies and grading systems. By taking these steps now we hope to assure the loan portfolio will continue to maintain its superior quality.

We have already mapped out some ambitious projects and plans for the year 2000. First and foremost will be the conversion of Valley Bank and Big Sky Western Bank to our own data center for all their computer processing. Not only will this give them access to all the new technological advancements we have available; it also allows their customers to utilize our other locations throughout the state. This project is already underway with a June completion scheduled.

Last year we built the foundation for our technology platform of the future. This year our commitment is to bring these expanded offerings to more of our customers. Mountain West Bank is currently augmenting its Internet banking with on-line bill paying. We are working with our software provider in developing a fully integrated bill payment system that will soon be available. With the image technology we have in place, electronic statements are now available. Customers can now download information to their own personal financial software. A new communication system will improve the time to process transactions. At the same time it will enhance the capabilities of our platform systems, which ultimately increases the functions available to our staff. With more power and resources available at their fingertips, our staff can deliver better care and more service and offerings to all our customers.

Although Glacier's investment in electronic commerce and Internet banking is important for our future, currently less than 10 percent of our customers use this delivery channel. The majority of our customers still utilize the more traditional forms of banking. Our commitment is to insure our customers have access to the type of banking that best fits their needs. This year our banks have a number of initiatives planned to build new offices in strategic locations. Our traditional banking offices are still the delivery system of choice among the majority of our current customers. We have no intention of discarding what has served our customers so well in the past and continues to be the delivery system that most of our customers still prefer.

Times, however, are changing. Our customers are presented with more options from more providers than ever before. Building on the strong foundation we have in place, we are positioning Glacier to guarantee that we offer the right alternatives for our customers. We are keeping what works, changing what doesn’t, looking ahead and taking calculated, evaluated risks. We’re building on where we’ve been with an eye toward the future.

Merger and acquisition activity in 2000 is starting out much slower than many experts predicted just a few months ago. The likely elimination of the pooling of interests accounting method at the end of this year was expected to create a rush of acquisitions attempting to beat the deadline. But, with bank stocks at such depressed levels currently, it will take a significant change in seller's expectations in order for many transactions to be consummated. We will only be successful in this venue if potential partners embrace our philosophy of the importance of community banking and share our optimism for the continued long-term success of Glacier. Our ability to deliver high touch with high tech must be meaningful and important to them. They need to value our decentralized management structure that allows Glacier affiliate banks to make decisions where they make the most sense - in the local community. As we’ve grown and more banks have joined the Glacier family, that commitment to local management has not changed. Who knows better about the needs of your town than your local banker. We think these principles are important to others also and feel we can continue to be a great alternative to other banks that share our philosophy.

Throughout this letter I’ve tried to illustrate all the good things that are taking place within our company, what makes us successful and some of the challenges we still face. Last year we stated three beliefs which we felt truly reflected our focus. They are worth repeating. We believe that community banking is the most consistently profitable type of banking. We believe that maintaining a community bank's independence is the key to the long-term success of our company. And we believe that more important than assets or markets, our future success is the direct result of our people. It is this last belief that year after year makes the real difference.

All of us know we haven't created the perfect workplace. But we are striving every day to make our workplace better for our staff members, to make sure they know somebody gives a darn about them and that they know they are critical to our success. It's the right thing to do. Our value chain begins with our people and customers and ends with value for you, our shareholders.

Our communities also benefit from all the time and talent our people donate and commit. Our banks pride themselves on their strong community involvement. From charity fundraisers to education programs for children, from weekends spent cleaning our communities to time spent on numerous boards and committees, our people are there. Why? Because they care and want to make the communities they serve a better place to live.

Really when you think about it, it's pretty simple. When you have great people who are willing to step up to whatever challenge we put before them, good things are going to happen. We are very fortunate to have a staff that believes in what we're doing, knows they have the ability to make a difference and prove it to us every day. Why is this important to our shareholders? Why focus so much attention on our people? The point is we could never provide superior performance for our customers or our shareholders without our people. They supply the energy, the drive, the creativity; they are the reason for our success.

It can't be said or emphasized enough times. Our strength comes from over 500 staff members and directors who are *simply the best.* They are the best people providing the best care to our customers and service to our communities. It is this commitment to serve that makes us unique, that makes us profitable, that makes us strong.

All of us value and appreciate your confidence and encouragement and look forward to continuing to perform in a manner worthy of your support.

Sincerely,

Michael J. Blodnick
President and Chief Executive Officer

Consolidated Statements of Financial Condition

(dollars in thousands)		December 31, 1999	1998
Assets:			
Cash on hand and in banks	$	**46,277**	33,806
Federal funds sold		**64**	5,883
Interest bearing cash deposits		**1,436**	2,494
Cash and cash equivalents		**47,777**	42,183
Investment securities, available-for-sale		**191,385**	97,214
Investment securities, held-to-maturity (market value of $8,560)		**0**	8,272
Loans receivable, net		**590,278**	518,208
Premises and equipment, net		**21,394**	17,382
Real estate and other assets owned, net		**550**	151
Federal Home Loan Bank of Seattle stock, at cost		**14,397**	12,366
Federal Reserve Bank stock, at cost		**1,467**	1,219
Accrued interest receivable		**5,112**	4,348
Goodwill and other intangibles, net of accumulated amortization of $1,012 and $ 707 at December 31, 1999, and 1998, respectively		**7,035**	2,601
Deferred tax asset		**2,642**	0
Other assets		**2,080**	2,022
	$	**884,117**	705,966
Liabilities:			
Deposits - non-interest bearing	$	**113,360**	100,177
Deposits - interest bearing		**462,922**	375,667
Advances from Federal Home Loan Bank of Seattle		**194,650**	124,886
Securities sold under agreements to repurchase		**19,766**	17,239
Other borrowed funds		**6,848**	1,468
Accrued interest payable		**2,646**	2,278
Current income taxes		**46**	0
Deferred income taxes		**0**	1,540
Minority interest		**308**	313
Other liabilities		**4,758**	4,588
Total liabilities		**805,304**	628,156
Stockholders' equity:			
Preferred stock, $.01 par value per share. Authorized 1,000,000 shares; none issued		**0**	0
Common stock, $.01 par value per share. 9,550,444 and 8,595,623 shares outstanding at December 31, 1999 and 1998, respectively		**96**	86
Paid-in capital		**81,193**	60,104
Retained earnings - substantially restricted		**2,622**	16,424
Accumulated other comprehensive income		**(5,098)**	1,196
Total stockholders' equity		**78,813**	77,810
	$	**884,117**	705,966

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

(dollars in thousands except per share data)		Years ended December 31, 1999	1998	1997
Interest Income:				
Real estate loans	$	**15,925**	17,769	18,260
Commercial loans		**19,684**	16,613	13,158
Consumer and other loans		**11,483**	11,055	10,994
Investment securities and other		**11,829**	8,284	9,274
Total Interest Income		**58,921**	53,721	51,686
Interest Expense:				
Deposits		**14,574**	14,710	13,911
Advances		**9,337**	7,876	8,028
Securities sold under agreements to repurchase		**1,318**	772	1,072
Other borrowed funds		**363**	192	285
Total Interest Expense		**25,592**	23,550	23,296
Net Interest Income		**33,329**	30,171	28,390
Provision for loan losses		**1,506**	1,532	889
Net Interest Income After Provision For Loan Losses		**31,823**	28,639	27,501
Non-Interest Income:				
Service charges and other fees		**6,154**	5,400	5,262
Miscellaneous loan fees and charges		**3,774**	4,766	3,661
Gain on sale of investments, net		**6**	45	196
Other income		**1,130**	1,748	1,016
Total Non-Interest Income		**11,064**	11,959	10,135
Non-Interest Expense:				
Compensation, employee benefits and related expense		**12,639**	11,740	11,233
Occupancy expense		**3,251**	2,870	2,482
Data processing expense		**769**	995	1,078
Other expense		**7,367**	7,535	6,426
Minority interest		**51**	145	208
Total Non-Interest Expense		**24,077**	23,285	21,427
Earnings before income taxes		**18,810**	17,313	16,209
Federal and state income tax expense		**6,631**	6,398	5,973
Net Earnings	$	**12,179**	10,915	10,236
Basic earnings per share	$	**1.28**	1.17	1.12
Diluted earnings per share	$	**1.27**	1.15	1.10

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
and Comprehensive Income
Years ended December 31, 1999, 1998, and 1997

($ in thousands except per share data)	Common Stock Shares	Common Stock Amount	Paid-in capital	Retained earnings substantially restricted	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 1996	4,974,211	50	35,410	22,769	(4)	58,225
Comprehensive income:						
Net earnings	--	--	--	10,236	--	10,236
Unrealized gain on securities, net of reclassification adjustment	--	--	--	--	1,218	1,218
Total comprehensive income	--	--	--	--	--	11,454
Cash dividends declared ($.47 per share)	--	--	--	(3,808)	--	(3,808)
Stock options exercised	52,160	1	557	--	--	558
Tax benefit from stock related compensation	--	--	257	--	--	257
Increase in stock grant earned	--	--	20	--	--	20
Three for two stock split	2,493,651	24	(24)	(5)	--	(5)
Additional shares issued	70,961	1	1,000	0	--	1,001
Balance at December 31, 1997	7,590,983	$ 76	37,220	29,192	1,214	67,702
Comprehensive income:						
Net earnings	--	--	--	10,915	--	10,915
Unrealized loss on securities, net of reclassification adjustment	--	--	--	--	(18)	(18)
Total comprehensive income	--	--	--	--	--	10,897
Transfer from retained earnings to additional paid in capital	--	--	100	(100)	--	0
Cash dividends declared ($.57 per share)	--	--	--	(4,922)	--	(4,922)
Stock options exercised	149,076	1	1,531	--	--	1,532
Tax benefit from stock related compensation	--	--	386	--	--	386
Increase in stock grant earned	--	--	15	--	--	15
10% stock dividend	771,803	8	18,654	(18,661)	--	1
Additional shares issued	83,761	1	2,198	--	--	2,199
Balance at December 31, 1998	8,595,623	$ 86	60,104	16,424	1,196	77,810
Comprehensive income:						
Net earnings	--	--	--	12,179	--	12,179
Unrealized loss on securities, net of reclassification adjustment	--	--	--		(6,294)	(6,294)
Total comprehensive income	--	--	--	--	--	5,885
Cash dividends declared ($.64 per share)	--	--	--	(6,076)	--	(6,076)
Stock options exercised	90,233	1	972	--	--	973
Tax benefit from stock related compensation	--	--	240	--	--	240
10% stock dividend	864,588	9	19,877	(19,905)	--	(19)
Balance at December 31, 1999	9,550,444	$ 96	81,193	2,622	(5,098)	78,813

Disclosure of reclassification amount:		Year ended December 31, 1999	1998	1997
Unrealized and realized holding gains (losses) arising during the period	$	(10,423)	24	2,044
Transfer from held to maturity		288	--	--
Tax expense		3,845	(12)	(697)
Net after tax		(6,290)	12	1,347
Less reclassification adjustment for gains (losses) included in net income		6	45	196
Tax expense		(2)	(15)	(67)
Net after tax		4	30	129
Net change in unrealized gain (loss) on available-for-sale securities	$	(6,294)	(18)	1,218

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(dollars in thousands)		Years ended December 31, 1999	1998	1997
OPERATING ACTIVITIES :				
Net earnings	$	**12,179**	10,915	10,236
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:				
Mortgage loans held for sale originated or acquired		**(104,247)**	(156,058)	(77,414)
Proceeds from sales of mortgage loans held for sale		**114,211**	150,273	73,566
Proceeds from sales of commercial loans		**5,125**	8,756	16,193
Provision for loan losses		**1,506**	1,532	889
Depreciation of premises and equipment		**1,535**	1,299	1,172
Amortization of goodwill		**305**	165	155
Gain on sale of investments		**(6)**	(45)	(196)
Amortization of investment securities premiums and discounts, net		**205**	(214)	34
Net (decrease) increase in deferred income taxes		**(123)**	(68)	(317)
Net (increase) decrease in accrued interest receivable		**(764)**	128	(326)
Net increase in accrued interest payable		**368**	462	621
Net increase (decrease) in current income taxes		**531**	(635)	738
Net increase in other assets		**(233)**	(229)	(137)
Net increase (decrease) in other liabilities and minority interest		**12**	1,439	(8,326)
FHLB stock dividends		**(982)**	(929)	(808)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**29,622**	16,791	16,080
INVESTING ACTIVITIES:				
Proceeds from sales, maturities and prepayments of investment securities available-for-sale		**33,601**	33,341	32,651
Purchases of investment securities available-for-sale		**(130,122)**	(24,171)	(39,342)
Proceeds from maturities and prepayments of investment securities held-to-maturity		**0**	8,947	9,950
Purchases of investment securities held-to-maturity		**0**	(1,130)	(369)
Principal collected on installment and commercial loans		**186,834**	156,955	89,264
Installment and commercial loans originated or acquired		**(284,335)**	(208,601)	(132,613)
Principal collections on mortgage loans		**95,009**	87,622	62,692
Mortgage loans originated or acquired		**(86,359)**	(72,497)	(71,687)
Net proceeds from sales (acquisition) of real estate owned		**0**	0	385
Net purchase of FHLB and FRB stock		**(1,297)**	(879)	(1,233)
Net addition of premises and equipment		**(5,760)**	(3,959)	(2,135)
Acquisition of minority interest		**0**	(236)	(14)
Acquisition of branch deposits		**(4,739)**	0	0
NET CASH USED IN INVESTING ACTIVITIES		**(197,168)**	(24,608)	(52,451)
FINANCING ACTIVITIES:				
Net increase in deposits		**100,438**	46,046	33,200
Net increase (decrease) in FHLB advances and other borrowed funds		**75,144**	(27,593)	(1,798)
Net increase (decrease) in securities sold under repurchase agreements		**2,527**	(4,434)	9,354
Cash dividends paid to stockholders		**(5,923)**	(4,237)	(3,369)
Proceeds from exercise of stock options and other stock issued		**954**	1,533	1,554
NET CASH PROVIDED BY FINANCING ACTIVITIES		**173,140**	11,315	38,941
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,594**	3,498	2,570
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**42,183**	38,685	36,115
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	**47,777**	42,183	38,685
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Non-cash investing activity: transfer of held-to-maturity securities to available-for-sale	$	**8,272**	0	0
Cash paid during the period for interest	$	**25,224**	23,088	22,675
Cash paid during the period for income taxes	$	**6,224**	7,046	5,511

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) General
Glacier Bancorp, Inc. (the "Company"), a Delaware corporation organized in 1990, is a multi-bank holding company which provides a full range of banking services to individual and corporate customers in Montana through its subsidiary banks. The subsidiary banks are subject to competition from other financial service providers. The subsidiary banks are also subject to the regulations of certain government agencies and undergo periodic examinations by those regulatory authorities.

The accounting and consolidated financial statement reporting policies of the Company conform with generally accepted accounting principles and prevailing practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities as of the date of the statement of financial condition and income and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the subsidiary banks' allowance for loan losses. Such agencies may require the subsidiary banks to recognize additions to the allowance based on their judgements about information available to them at the time of their examination.

(b) Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its seven subsidiaries, Glacier Bank ("Glacier"), First Security Bank of Missoula ("First Security"), Glacier Bank of Whitefish ("Whitefish"), Glacier Bank of Eureka ("Eureka"), Valley Bank of Helena ("Valley), Big Sky Western Bank, ("Big Sky"), and Community First, Inc. ("CFI"). All significant inter-company transactions have been eliminated in consolidation. The Company owns 94% of the outstanding stock of Whitefish, 98% of Eureka, and 100% of Glacier, First Security, Valley, Big Sky, and CFI.

Valley was acquired on August 31, 1998 through an exchange of stock with HUB Financial Corp. (HUB), formerly the parent company of Valley and the minority shareholders of Valley. The transaction with the minority shareholders was accounted for as a purchase. Financial information from August 31, 1998 forward includes the results of operations previously attributable to the minority interest. Big Sky was acquired on January 20, 1999. The pooling method of interests accounting method was used for the merger transaction with HUB and the merger transaction with Big Sky. Under this method, financial information for each of the periods presented includes the combined companies as though the merger had occurred prior to the earliest date presented.

(c) Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, cash held as demand deposits at various banks and regulatory agencies, interest bearing deposits and federal funds sold with original maturities of three months or less.

(d) Investment Securities
Debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are stated at amortized cost. Debt and equity securities held primarily for the purpose of selling in the near term are classified as trading securities and are reported at fair market value, with unrealized gains and losses included in income. Debt and equity securities not classified as held-to-maturity or trading are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of income taxes, shown as a separate component of stockholders' equity. Premiums and discounts on investment securities are amortized or accreted into income using a

1. Summary of Significant Accounting Policies . . . continued

method that approximates the level-yield interest method. The cost of any investment, if sold, is determined by specific identification. Declines in the fair value of securities below carrying value that are other than temporary are charged to expense as realized losses and the related carrying value is reduced to fair value.

Effective January 1, 1999, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 133 establishes accounting and reporting standards that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS 133 had no impact on the financial statements of the Company except that it allowed for a one-time reclassification of the investment portfolio from held-to-maturity to either trading or available-for-sale. The net effect on the consolidated statement of financial condition of this reclassification of all the Company's held-to-maturity securities, with an amortized cost of approximately $8,272,000, was an increase in total assets of $288,000, deferred tax liabilities of $98,000 and unrealized gains on securities available-for-sale of $190,000.

(e) Loans Receivable

Loans that are intended to be held to maturity are reported at their unpaid principal balance less chargeoffs, specific valuation accounts, and any deferred fees or costs on originated loans. Purchased loans are reported net of unamortized premiums or discounts. Discounts and premiums on purchased loans and net loan fees on originated loans are amortized over the expected life of loans using methods that approximate the interest method.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal or when a loan becomes contractually past due by ninety days or more with respect to interest or principal unless such past due loan is well secured and in the process of collection. When a loan is placed on nonaccrual status, interest previously accrued but not collected is reversed against current period interest income. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgement of management, the loans are estimated to be fully collectible as to both principal and interest.

(f) Loans Held for Sale

Mortgage and commercial loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized by charges to income. A sale is recognized when the Company surrenders control of the loan and consideration, other than beneficial interest in the loan, is received in exchange. A gain is recognized to the extent the selling price exceeds the carrying value.

(g) Allowance for Loan Losses

Management's periodic evaluation of the adequacy of the allowance is based on factors such as the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions, and independent appraisals.

The Company also provides an allowance for losses impaired loans. Groups of small balance homogeneous loans (generally consumer and residential real estate loans) are evaluated for impairment collectively. A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect, on a timely basis, all principal and interest according to the contractual terms of the loan's original agreement. When a specific loan is determined to be impaired, the allowance for loan losses is increased through a charge to expense for the amount of the impairment. The amount of the impairment is measured using cash flows discounted at the loan's effective interest rate, except when it is determined that the sole source of repayment for the loan is the operations or liquidation of the underlying collateral. In such cases, impairment is measured by determining the current value of the collateral, reduced by anticipated selling costs. The Company recognizes interest income on impaired loans only to the extent the cash payments are received. During 1999 and 1998 the amount of impaired loans was not material.

(h) Premises and Equipment
Premises and equipment are stated at cost less depreciation. Depreciation is computed on a straight-line method over the estimated useful lives or the term of the related lease.

(i) Real Estate Owned
Property acquired by foreclosure or deed in lieu of foreclosure is carried at the lower of cost or estimated fair value, less selling costs. Costs, excluding interest, relating to the improvement of property are capitalized, whereas those relating to holding the property are charged to expense. Fair value is determined as the amount that could be reasonably expected in a current sale (other than a forced or liquidation sale) between a willing buyer and a willing seller. If the fair value of the asset minus the estimated cost to sell is less than the cost of the property, a loss is recognized and the asset carrying value is reduced.

(j) Restricted Stock Investments
The Company holds stock in the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank (FRB). 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 restrictive terms, and the lack of a readily determinable market value, FHLB and FRB stocks are carried at cost

(k) Goodwill and Other Intangibles
The excess of purchase price over the fair value of net assets from acquisitions ("Goodwill") is being amortized using the straight-line method over periods of primarily 5 to 25 years. The Company assesses the recoverability of Goodwill by determining whether the unamortized balance related to an acquisition can be recovered through undiscounted future cash flows over the remaining amortization period.

Core deposit intangibles represent the intangible value of depositor relationships resulting from deposit liabilities assumed in acquisitions and are amortized using an accelerated method based on an estimated runoff of the related deposits, not exceeding 10 years.

(l) Income Taxes
Deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(m) Stock-based Compensation
Compensation cost for stock-based compensation to employees is measured at the grant date using the intrinsic value method. Under the intrinsic value method, compensation cost is the excess of the market price of the stock at the grant date over the amount an employee must pay to ultimately acquire the stock and is recognized over any related service period.

(n) Long-lived Assets
Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is deemed impaired if the sum of the expected future cash flows is less than the carrying amount of the asset. If impaired, an impairment loss is recognized to reduce the carrying value of the asset to fair value. At December 31, 1999 and 1998 there were no assets that were considered impaired.

1. Summary of Significant Accounting Policies . . . continued

(o) Mortgage Servicing Rights
The Company recognizes mortgage servicing rights on loans originated and subsequently sold as an asset regardless of whether the servicing rights are acquired or retained on loans originated and subsequently sold. The mortgage servicing rights are assessed for impairment based on the fair value of the mortgage servicing rights. As of December 31, 1999 and 1998 the carrying value of servicing rights was approximately $665,000 and $689,000, respectively. There was no impairment of carrying value at December 31, 1999 or 1998.

(p) Earnings Per Share
Basic earnings per share is computed by dividing net earnings available to common stockholders by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is computed by dividing such net earnings by the weighted average number of common shares used to compute basic EPS plus the incremental amount of potential common stock determined by the treasury stock method. Previous period amounts are restated for the effect of stock dividends and splits.

(q) Comprehensive Income
Comprehensive income includes net income, as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company's only significant element of other comprehensive income is unrealized gains and losses on available-for-sale securities.

(r) Reclassifications
Certain reclassifications have been made to the 1998 and 1997 financial statements to conform to the 1999 presentation.

2. Cash on Hand and in Banks

The subsidiary banks are required to maintain an average reserve balance with either the Federal Reserve Bank or in the form of cash on hand. The amount of this required reserve balance at December 31, 1999 was $6,397,000

3. Investment Securities

A comparison of the amortized cost and estimated fair value of the Company's investment securities is as follows at:

December 31, 1999

Dollars in thousands	Weighted Yield	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale					
U.S. Government and Federal Agencies					
maturing within one year………………………………	5.98%	1,998	3	(4)	1,997
maturing one year through five years………………	7.39%	1,007	16	0	1,023
maturing after ten years………………………………	6.57%	1,043	1	(11)	1,033
	6.48%	4,048	20	(15)	4,053
State and Local Governments and other issues:					
maturing within one year………………………………	6.78%	285	0	(49)	236
maturing one year through five years………………	4.99%	1,411	15	(5)	1,421
maturing five years through ten years………………	6.88%	4,120	25	(20)	4,125
maturing after ten years………………………………	5.16%	46,698	39	(2,985)	43,752
	5.30%	52,514	79	(3,059)	49,534
Mortgage-Backed Securities………………………	7.09%	34,847	161	(1,080)	33,928
Real Estate Mortgage Investment Conduits………	6.94%	108,374	126	(4,630)	103,870
Total Securities	**6.53%**	**199,783**	**386**	**(8,784)**	**191,385**

3. Investment Securities . . . continued

December 31, 1998

Dollars in thousands **Held-to-Maturity**	Weighted Yield		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and Federal Agencies:						
maturing within one year....................................	7.90%	$	3,010	63	0	3,073
maturing one year through five years...........	7.10%		1,237	66	0	1,303
	7.67%		4,247	129	0	4,376
State and Local Governments and other issues:						
maturing within one year....................................	5.50%		552	5	0	557
maturing one year through five years................	5.56%		811	24	0	835
maturing five years through ten years...............	5.01%		1,222	44	0	1,266
maturing after ten years....................................	5.67%		1,440	86	0	1,526
	5.42%		4,025	159	0	4,184
Total Held-to-Maturity Securities	6.58%	$	8,272	288	0	8,560
Available-for-Sale						
U.S. Government and Federal Agencies:						
maturing within one year....................................	5.87%	$	2,676	9	(1)	2,684
maturing one year through five years...........	5.90%		5,993	79	0	6,072
maturing after ten years..............................	6.66%		1,816	10	(1)	1,825
	6.02%		10,485	98	(2)	10,581
State and Local Governments and other issues:						
maturing within one year..............................	6.88%	$	250	0	0	250
maturing one year through five years...........	6.00%		100	7	0	107
maturing five years through ten years..........	5.30%		1,167	69	0	1,236
maturing after ten years..............................	5.21%		37,173	1,590	(319)	38,444
	5.23%		38,690	1,666	(319)	40,037
Mortgage-Backed Securities..........................	7.42%		18,299	546	(63)	18,782
Real Estate Mortgage Investment Conduits...	6.58%		27,715	184	(85)	27,814
Total Available-for-Sale Securities	6.16%	$	95,189	2,494	(469)	97,214

The book value of investment securities is as follows at (in thousands):

		December 31, 1997 Held-to-Maturity	Available-for-Sale	Totals
U.S. Government and Federal Agencies…………………	$	9,539	23,819	33,358
State and Local Governments and Other Issues………..		4,382	26,941	31,323
Mortgage-Backed Securities…………………………….		3,100	21,535	24,635
Real Estate Mortgage Investment Conduits.....…………		-	32,838	32,838
	$	17,021	105,133	122,154

Maturities of securities do not reflect repricing opportunities present in adjustable rate securities, nor do they reflect expected shorter maturities based upon early prepayment of principal.

The Company has not entered into any interest rate swaps, options or futures contracts.

Gross proceeds from sales of investment securities for the years ended December 31, 1999, 1998, and 1997 were approximately $9,270,000, $7,009,000 and $10,181,000 respectively, resulting in gross gains

3. Investment Securities . . . continued

of approximately $55,000, $48,000 and $204,000 and gross losses of approximately $49,000, $3,000 and $8,000, respectively.

At December 31, 1999, the Company had investment securities with par values of approximately $75,261,000 pledged as security for deposits of several local government units, securities sold under agreements to repurchase, and as collateral for treasury tax and loan borrowings.

The Real Estate Mortgage Investment Conduits are backed by the FNMA, GNMA, or FHLMC. At December 31, 1999 and 1998, the minority interest share of the unrealized loss was approximately $22,000 and $7,000, respectively.

4. Loans Receivable

The following is a summary of loans receivable at:

(dollars in thousands)		December 31, 1999	1998
Residential first mortgage	$	**192,804**	201,898
Loans held for sale		**3,326**	13,692
Commercial real estate		**152,504**	105,339
Commercial		**105,613**	89,067
Consumer		**80,039**	64,069
Home equity		**62,577**	49,795
Outstanding balances on credit cards		**0**	18
		596,863	523,879
Net deferred loan fees, premiums and discounts		**(517)**	(538)
Allowance for losses		**(6,068)**	(5,133)
	$	**590,278**	518,208

The following is a summary of activity in allowance for losses on loans:

(dollars in thousands)		Years ended December 31, 1999	1998	1997
Balance, beginning of period	$	**5,133**	4,279	3,887
Net charge offs		**(571)**	(678)	(497)
Provision		**1,506**	1,532	889
Balance, end of period	$	**6,068**	5,133	4,279

4. Loans Receivable . . . continued

The following is the allocation of allowance for loan losses at:

(dollars in thousands)	December 31, 1999 Amount	December 31, 1999 Percent of of loans in category	December 31, 1998 Amount	December 31, 1998 Percent of of loans in category
Real estate loans and contracts....	$ **1,000**	**0.51%**	$ 1,099	0.51%
Commercial real estate................	**1,526**	**1.00%**	1,060	1.00%
Other commercial	**2,107**	**2.00%**	1,717	1.94%
Consumer loans and credit cards.	**966**	**1.21%**	885	1.38%
Home equity	**469**	**0.75%**	372	0.75%
	$ **6,068**	**1.02%**	$ 5,133	0.98%

Substantially all of the Company's loans receivable are with customers within the Company's market area. Although the Company has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the economic performance in the Company's market areas.

The weighted average interest rate on loans was 8.52% and 8.82% at December 31, 1999 and 1998, respectively.

At December 31, 1999 ,1998 and 1997 serviced loans sold to others were $129,666,000, $123,741,000, and $128,250,000, respectively

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extent credit and letters of credit, and involve, to varying degrees, elements of credit risk. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Company had outstanding commitments as follows (in thousands):

	December 31, 1999	December 31, 1998
Letters of credit..	$ **6,133**	3,892
Loans and loans in process..................................	**61,318**	52,247
Unused consumer lines of credit..........................	**16,583**	9,570
	$ **84,034**	65,709

The following is a summary of accrued interest receivable (in thousands):

	December 31, 1998	December 31, 1998
Investment securities	$ **1,517**	1,158
Mortgage-backed securities ……….	**191**	75
Loans receivable	**3,404**	3,115
	$ **5,112**	4,348

4. Loans Receivable . . . continued

The Company has entered into transactions with its executive officers, directors, significant shareholders, and their affiliates. The aggregate amount of loans to such related parties at December 31, 1999 was approximately $10,603,000. During 1999, new loans to such related parties were approximately $17,108,000 and repayments were approximately $13,534,000.

5. Premises and Equipment

Premises and equipment consist of the following at:

	December 31,	
(dollars in thousands)	**1999**	1998
Land	$ **3,553**	3,360
Office buildings and construction in progress	**15,603**	12,563
Furniture, fixtures and equipment	**10,589**	8,523
Leasehold improvements	**1,162**	1,481
Accumulated depreciation	**(9,513)**	(8,545)
	$ **21,394**	17,382

6. Deposits

Deposits consist of the following at:

(dollars in thousands)	December 31, 1999 Weighted Average Rate	December 31, 1999 Amount	December 31, 1999 Percent	December 31, 1998 Amount	December 31, 1998 Percent
Demand accounts	**0.0%**	$ **113,360**	**19.7%**	$ 100,177	21.1%
NOW accounts	**1.1%**	**89,937**	**15.6%**	83,414	17.5%
Savings accounts	**1.7%**	**42,645**	**7.4%**	45,053	9.5%
Money market demand accounts	**4.0%**	**138,140**	**24.0%**	100,537	21.1%
Certificate accounts:					
4.00% and lower		**1,715**	**0.3%**	542	0.1%
4.01% to 5.00%.		**57,830**	**10.0%**	28,121	5.9%
5.01% to 6.00%		**105,372**	**18.3%**	86,746	18.2%
6.01% to 7.00%		**26,711**	**4.6%**	24,186	5.1%
7.01% to 8.00%		**412**	**0.1%**	6,340	1.3%
8.01% and higher		**160**	**0.0%**	728	0.2%
Total certificate accounts	**5.4%**	**192,200**	**33.3%**	146,663	30.8%
Total interest bearing deposits	**3.6%**	**462,922**	**80.3%**	375,667	78.9%
Total deposits	**2.9%**	$ **576,282**	**100.0%**	475,844	100.0%
Deposits with a balance in excess of $100,000		$ **180,433**		$ 147,247	

At December 31, 1999, scheduled maturities of certificates of deposit are as follows:

(dollars in thousands)	**Total**	2000	2001	2002	2003	Thereafter
		Years ending December 31,				
4.00% and lower	$ **1,715**	1,702	12	1	0	0
4.01% to 5.00%	**57,830**	49,946	5,746	1,102	287	749
5.01% to 6.00%	**105,372**	85,937	11,229	6,127	976	1,103
6.01% to 7.00%	**26,711**	15,666	7,941	2,051	1,031	22
7.01% to 8.00%	**412**	288	108	16	0	0
8.01% and higher	$ **160**	100	54	6	0	0
	192,200	153,639	25,090	9,303	2,294	1,874

Interest expense on deposits is summarized as follows:

(dollars in thousands)	Years ended December 31, **1999**	1998	1997
NOW accounts	$ **875**	1,274	1,324
Money market demand accounts	**4,538**	4,365	3,245
Certificate accounts	**8,435**	8,006	7,927
Savings accounts	**726**	1,065	1,415
	$ **14,574**	14,710	13,911

7. Advances From Federal Home Loan Bank of Seattle

Advances from the Federal Home Loan Bank of Seattle consist of the following:

(dollars in thousands)	Total	2000	2001	2002	2003	2004	2005-2010
	Maturing in years ending December 31,						
4.00% to 5.00%…….	$ 84,018	83,870	148	--	--	--	--
5.01% to 6.00%…….	98,726	77,358	4,361	742	15,552	152	561
6.01% to 7.00%........	9,996	6,856	296	354	237	189	2,064
7.01% to 8.00%…….	1,710	40	140	40	240	140	1,110
8.01% to 9.00%…….	200	--	--	--	100	100	--
	$ 194,650	168,124	4,945	1,136	16,129	581	3,735

These advances were collateralized by the Federal Home Loan Bank of Seattle stock held by the Company, and qualifying real estate loans and investments totaling approximately $305,150,000 and $234,846,000 at December 31, 1999 and 1998, respectively.

The weighted average interest rate on these advances was 5.25% and 5.49% at December 31, 1999 and 1998, respectively.

The Federal Home Loan Bank of Seattle holds callable options which may be exercised after a predetermined time, and quarterly thereafter on the following advances:

Contractual Maturity Date	Year of Initial Call	Total Advance Amount	Weighted Average Interest Rate
2003	2000	$ 16,000	5.23%
2008	2001	3,000	5.37%
2008	2003	15,000	5.52%
		$ 34,000	5.37%

8. Securities Sold Under Agreements to Repurchase and Other Borrowed Funds

Securities sold under agreements to repurchase consist of the following at:

(dollars in thousands) December 31, 1999	**Repurchase amount**	**Weighted average rate**	**Book value of underlying assets**	**Market value of underlying assets**
Securities sold under agreements to repurchase within:				
1-30 days	**$ 13,765**	**4.38%**	**$ 19,601**	**20,295**
31-90 days	**6,001**	**4.81%**	**6,757**	**6,866**
Greater than 90 days............................	**--**	**--**	**--**	**--**
	$ 19,766	**4.51%**	**$ 26,358**	**27,161**
December 31, 1998:				
Securities sold under agreements to repurchase within:				
1-30 days	$ 11,000	4.05%	$ 14,706	15,099
31-90 days	6,126	5.18%	6,797	7,174
Greater than 90 days..............................	113	5.31%	120	120
	$ 17,239	4.70%	$ 21,623	22,393

The securities underlying agreements to repurchase entered into by the Company are for the same securities originally sold, and are held in a custody account by a third party. For the year ended December 31, 1999, securities sold under agreements to repurchase averaged approximately

8. Securities Sold Under Agreements to Repurchase and Other Borrowed Funds . . . continued

$28,605,000 and the maximum outstanding at any month end during the year was approximately $53,791,000.

In 1996 the Company entered into the treasury tax and loan account note option program, which provides short term funding with no fixed maturity date up to $12,000,000 at federal funds rate minus 25 basis points. At December 31, 1999 and 1998 the outstanding balance under this program was approximately $5,778,000 and $1,100,000. The borrowings are secured with investment securities with a par value of approximately $8,620,000 and a market value of approximately $8,382,000. For the year ended December 31, 1999, the maximum outstanding at any month end was approximately $7,357,000 and the average balance was approximately $3,047,000.

Other borrowed funds also includes federal funds purchased of $720,000 and $38,000 at December 31, 1999 and 1998, respectively.

9. Subordinated Debentures

During 1999, the Company assumed Big Sky's subordinated convertible debentures as part of the merger transaction. The outstanding balance at December 31, 1999 was $350,000, and is due December 31, 2001. The interest rate is 7.5 percent, payable quarterly. The debentures may be prepaid at any time by the Company, subject to approval by the FDIC and the Company's primary regulator, and are convertible at the rate of one share of Company stock for each $12.83 of principal value, or an equivalent of 27,293 shares.

10. Stockholders' Equity

The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in supervising a bank holding company. The following table illustrates the Federal Reserve Board's adequacy guidelines and the Company's compliance with those guidelines as of December 31, 1999:

(dollars in thousands)	Tier 1 (Core) Capital	Tier 2 (Total) Capital	Leverage Capital
GAAP Capital	$ 78,813	$ 78,813	$ 78,813
Less: Goodwill	(7,035)	(7,035)	(7,035)
Plus: Net unrealized losses on			
securities available for sale	5,098	5,098	5,098
Allowance for loan losses	--	6,068	--
Minority Interest	308	308	308
Other regulatory adjustments.	(82)	(82)	(82)
Regulatory capital computed.	$ 77,102	$ 83,170	$ 77,102
Risk weighted assets	$ 569,370	$ 569,370	
Total average assets			$ 791,311

		1999	
Capital as % of defined assets.	13.54%	14.61%	9.74%
Regulatory "well capitalized" requirement . .	6.00%	10.00%	5.00%
Excess over "well capitalized" requirement.	7.54%	4.61%	4.74%

10 Stockholders' Equity . . . continued

		1998	
Capital as % of defined assets.	15.96%	17.07%	10.61%
Regulatory "well capitalized" requirement . .	6.00%	10.00%	5.00%
Excess over "well capitalized" requirement.	9.96%	7.07%	5.61%

The Federal Deposit Insurance Corporation Improvement Act generally restricts a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding Company if the institution would thereafter be capitalized at less than 8% of total risk-based capital, 4% of Tier I capital, or a 4% leverage ratio. At December 31, 1999, the subsidiary banks' capital measures exceed the highest supervisory threshold, which requires total Tier II capital of at least 10%, Tier I capital of at least 6%, and a leverage ratio of at least 5%. Each of the subsidiaries was considered well capitalized by the respective regulator as of December 31, 1999.

During 1997, an additional 70,961 shares of stock were issued to increase the capital of Big Sky.

11. Federal and State Income Taxes

The following is a summary of consolidated income tax expense for:

	Years ended December 31,		
(dollars in thousands)	**1999**	1998	1997
Current:			
Federal..	$ **5,517**	5,267	5,212
State..	**1,237**	1,199	1,078
Total current tax expense	**6,754**	6,466	6,290
Deferred:			
Federal..	**(86)**	(102)	(363)
State..	**(37)**	34	46
Total deferred tax expense (benefit)	**(123)**	(68)	(317)
Total income tax expense	$ **6,631**	6,398	5,973

Federal and state income tax expense differs from that computed at the federal statutory corporate tax rate as follows for:

	Years ended December 31,		
	1999	1998	1997
Federal statutory rate..	**35.0%**	35.0%	35.0%
State taxes, net of federal income tax benefit	**4.2%**	4.6%	4.5%
Non-deductible merger expenses.....................................	**0.0%**	0.1%	0.2%
Other, net..	**-3.9%**	-2.8%	-2.9%
	35.3%	36.9%	36.8%

Tax exempt interest for the years ended December 31, 1999, 1998 and 1997 was approximately $2,301,000, $1,604,000, and $1,227,000, respectively.

11. Federal and State Income Taxes . . . continued

The tax effect of temporary differences which give rise to a significant portion of deferred tax assets and deferred tax liabilities are as follows at:

(dollars in thousands)		December 31, 1999	1998
Deferred tax assets:			
Allowance for losses on loans	$	**2,530**	2,138
Available-for-sale securities fair value adjustment		**3,278**	0
Other		**540**	513
Total gross deferred tax assets		**6,348**	2,651
Deferred tax liabilities:			
Federal Home Loan Bank stock dividends		**(2,196)**	(1,765)
Fixed assets, due to differences in depreciation		**(571)**	(450)
Tax bad debt reserve in excess of base-year reserve		**(418)**	(617)
Available-for-sale securities fair value adjustment		**0**	(822)
Basis difference from acquisitions		**(186)**	(192)
Other		**(335)**	(345)
Total gross deferred tax liabilities		**(3,706)**	(4,191)
Net deferred tax asset (liability)	$	**2,642**	(1,540)

There is no valuation allowance at December 31, 1999 and 1998 because management believes that it is more likely than not that the Company's deferred tax assets will be realized by offsetting future taxable income from reversing taxable temporary differences and anticipated future taxable income.

The current tax receivable (payable) was approximately ($46,000) and $485,000 at December 31, 1999 and 1998.

Retained earnings at December 31, 1999 includes approximately $3,600,000 for which no provision for Federal income tax has been made. This amount represents the base year bad debt reserve which is essentially an allocation of earnings to pre-1988 bad debt deductions for income tax purposes only. This amount is treated as a permanent difference and deferred taxes are not recognized unless it appears that this reserve will be reduced and thereby result in taxable income in the foreseeable future. The Company is not currently contemplating any changes in its business or operations which would result in a recapture of this federal bad debt reserve into taxable income.

12. Employee Benefit Plans

The Company has a noncontributory defined contribution retirement plan covering substantially all employees. The Company follows the policy of funding retirement plan contributions as accrued. The total retirement plan expense for the years ended December 31, 1999, 1998, and 1997 was approximately $791,000, $552,000 and $620,000 respectively.

The Company also has an employees' savings plan. The plan allows eligible employees to contribute up to 10% of their monthly salaries. The Company matches an amount equal to 50% of the employee's contribution, up to 6% of the employee's total pay. Participants are at all times fully vested in all contributions. The Company's contribution to the savings plan for the years ended December 31, 1999, 1998 and 1997 was approximately $246,000, $216,000, and $173,000, respectively

The Company has a Supplemental Executive Retirement Plan (SERP) which provides retirement benefits at the savings and retirement plan levels, for amounts that are limited by IRS regulations under those plans. The Company's contribution to the SERP for the years ended December 31, 1999, 1998 and 1997 was approximately $10,000, $26,000, and $46,000, respectively.

12. Employee Benefits . . . continued

The Company has a non-funded deferred compensation plan for directors and senior officers . The plan provides for the deferral of cash payments of up to 25% of a participants' salary, and for 100% of bonuses and directors fees, at the election of the participant. The total amount deferred was approximately $43,000, $52,000, $156,000, for the years ending December 31, 1999, 1998, and 1997, respectively. The participant receives an earnings credit at a one year certificate of deposit rate, or at the total return rate on Company stock, on the amount deferred, as elected by the participant at the time of the deferral election. The total earnings (losses) for the years ended 1999, 1998, and 1997 were approximately ($33,000), $12,000, and $66,000, respectively.

The Company has entered into employment contracts with nine senior officers that provide benefits under certain conditions following a change in control of the Company.

13. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	For the Years Ended December 31,		
	1999	1998	1997
Net earnings available to common stockholders, basic and diluted...... $	**12,179,000**	10,915,000	10,236,000
Average outstanding shares - basic...	**9,520,348**	9,304,101	9,130,762
Add: dilutive stock options.............	**91,803**	150,026	154,447
Average outstanding shares - diluted.	**9,612,151**	9,454,127	9,285,209
Basic earnings per share................ $	**1.28**	1.17	1.12
Diluted earnings per share.............. $	**1.27**	1.15	1.10

14. Stock Option Plans

During fiscal 1984, an Incentive Stock Option Plan was approved which provided for the grant of options limited to 168,750 shares to certain full time employees of the Company. In the year ended June 30, 1990, additional Stock Option Plans were approved which provided for the grant of options limited to 29,445 shares to outside Directors and 166,860 shares to certain full time employees of the Company. In the year ended December 31, 1994 a Stock Option Plan was approved which provided for the grant of options to outside Directors of the Company, limited to 50,000 shares. In the year ended December 31, 1995 a Stock Option Plan was approved which provided for the grant of options limited to 279,768 shares to certain full-time employees of the Company. In April 1999 the Directors 1994 Stock Option Plan, and the Employees 1995 Stock Option Plan, were amended to provide 100,000 and 600,000 additional shares for the Directors and Employees Plans, respectively. The option price at which the Company's common stock may be purchased upon exercise of options granted under the plan must be at least equal to the per share market value of such stock at the date the option is granted. The 1984 plan also contains provisions permitting the optionee, with the approval of the Company, to surrender his or her options for cancellation and receive cash or common stock equal to the difference between the exercise price and the then fair market value of the shares on the date of surrender (cash-less exercise). The fiscal 1990 and 1995 plans also contain provisions authorizing the grant of limited stock rights, which permit the optionee, upon a change in control of the Company, to surrender his or her options for cancellation and receive cash or common stock equal to the difference between the exercise price and

14. Stock Option Plans . . . continued

the fair market value of the shares on the date of the grant. All option shares are adjusted for stock splits and stock dividends. The term of the options may not exceed five years from the date the options are granted. The employee options vest over a period of two years and the director options vest over a period of six months.

At December 31, 1999, total shares available for option grants to employees and directors are 773,432. Changes in shares granted for stock options for the years ended December 31, 1999, 1998, and 1997, are summarized as follows:

	Options outstanding			Options exercisable		
	Shares		Weighted average exercise price	Shares		Weighted average exercise price
Balance, December 31, 1996.	219,327	$	16.59	116,631	$	15.65
Canceled...............................	(9,715)		(15.65)			
Granted.................................	115,418		23.45			
Became exercisable..............				11,338		17.15
Three for two stock split.........	160,937			57,577		
Exercised..............................	(51,993)		(10.73)	(51,993)		(10.73)
Balance, December 31, 1997.	433,974	$	12.98	133,553	$	10.94
Canceled...............................	(8,950)		(15.68)	(600)		(10.37)
Granted.................................	134,377		24.37			
Became exercisable..............				132,885		11.31
Stock dividend.......................	46,574			28,620		
Exercised..............................	(149,076)		(10.27)	(149,076)		(10.27)
Balance, December 31, 1998.	456,899	$	15.83	145,382	$	11.00
Canceled...............................	(43,439)		(18.57)	(2,631)		(11.74)
Granted.................................	206,953		22.53			
Became exercisable..............				195,959		16.02
Stock dividend.......................	55,913			32,042		
Exercised..............................	(100,427)		(11.86)	(100,427)		(11.86)
Balance, December 31, 1999.	575,899	$	17.20	270,325	$	13.58

During the year ended December 31, 1999, there were 10,019 options exercised through cash-less exercises at a weighted average market price of $21.77.

The range of exercise prices on options outstanding at December 31, 1999 is as follows:

					Options exercisable		
Price range	Shares		Weighted average exercise price	Weighted average life of options	Shares		Weighted average exercise price
$8.32 - $10.52	75,997	$	10.04	2.9 years	74,796	$	10.06
$12.53 - $13.56	161,529		13.19	3.1 years	161,529		13.19
$17.87 - $21.00	302,373		20.43	3.0 years	-		-
$23.19 - $24.00	36,000		23.21	4.4 years	34,000		23.19
	575,899	$	17.20	3.4 years	270,325	$	13.58

The options exercised during the year ended December 31, 1999 were at prices from $8.99 to $20.15.

14. Stock Option Plans . . . continued

The per share weighted-average fair value of stock options granted during 1999, 1998 and 1997 was \$5.07, \$5.09, and \$5.05, respectively, on the date of grant using the Black Scholes option-pricing model with the following assumptions: 1999 - expected dividend yield of 3.3%, risk-free interest rate of 6.2%, volatility ratio of .23, and expected life of 4.8 years: 1998 - expected dividend yield of 2.5%, risk-free interest rate of 4.6%, volatility ratio of .22, and expected life of 4.8 years: 1997 - expected dividend yield of 2.9%, risk-free interest rate 5.8%, volatility ratio .22, and expected life of 4.8 years.

The exercise price of all options granted has been equal to the fair market value of the underlying stock at the date of grant and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on the fair value of the option itself at the grant date for its stock options under SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

		Years ended December 31,		
		1999	1998	1997
Net earnings:	As reported \$	12,179	10,915	10,236
(in thousands)	Pro forma	11,302	10,297	9,788
Basic earnings per share:	As reported	1.28	1.17	1.12
	Pro forma	1.19	1.11	1.07
Diluted earnings per share:	As reported	1.27	1.15	1.10
	Pro forma	1.18	1.09	1.05

15. Parent Company Information (Condensed)

The following condensed financial information is the unconsolidated (parent company only) information for Glacier Bancorp, Inc., combined with Big Sky Western Bank:

Statements of Financial Condition (dollars in thousands)		December 31, 1999	1998
Assets:			
Cash	$	**2,561**	598
Interest bearing cash deposits		**16**	2,487
Cash and cash equivalents		**2,577**	3,085
Investments securities, available-for-sale, at market value		**1,755**	1,691
Investments securities, held-to-maturity, at cost		**0**	91
Other assets		**2,640**	1,332
Goodwill, net		**2,376**	2,601
Investment in subsidiaries		**71,977**	71,395
	$	**81,325**	80,195
Liabilities and Stockholders' Equity:			
Dividends payable	$	**1,910**	1,757
Notes payable		**0**	0
Other liabilities		**602**	628
Total liabilities		**2,512**	2,385
Common stock		**96**	86
Paid-in capital		**81,193**	60,104
Retained earnings		**2,622**	16,424
Net unrealized gains (losses) on securities available-for-sale		**(5,098)**	1,196
Total stockholders' equity		**78,813**	77,810
	$	**81,325**	80,195

Statements of Operations (dollars in thousands)		Years ended December 31, 1999	1998	1997
Revenues				
Dividends from subsidiaries	$	**8,420**	5,377	3,779
Other income		**161**	168	344
Intercompany charges for services		**1,617**	1,971	1,803
Total revenues		**10,198**	7,516	5,926
Expenses				
Employee compensation and benefits		**1,519**	1,880	1,974
Goodwill amortization		**243**	165	155
Other operating expenses		**1,027**	1,239	323
Total expenses		**2,789**	3,284	2,452
Earnings before income tax benefit and equity in undistributed earnings of subsidiaries		**7,409**	4,232	3,474
Income tax benefit		**(328)**	(198)	(88)
Income before equity in undistributed earnings of subsidiaries		**7,737**	4,430	3,562
Equity in undistributed earnings of subsidiaries		**4,442**	6,485	6,674
Net earnings	$	**12,179**	10,915	10,236

15. Parent Company Information (Condensed) . . . continued

Statements of Cash Flows (dollars in thousands)		Years ended December 31, 1999	1998	1997
Operating Activities				
Net earnings	$	**12,179**	10,915	10,236
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Goodwill amortization		**242**	165	155
Gain on sale of investments available-for-sale		**0**	(8)	(184)
Equity in undistributed earnings of subsidiaries		**(4,442)**	(6,485)	(6,674)
Net increase (decrease) in other assets and other liabilities		**(918)**	204	(1,732)
Net cash provided by operating activities		**7,061**	4,791	1,801
Investing activities				
Purchases of investment securities available-for-sale		**(103)**	(198)	(176)
Proceeds from sales, maturities and prepayments of securities available-for-sale		**3**	59	484
Proceeds from maturities of securities held-to-maturity		**0**	3	3
Payment for land purchase		**0**	0	(160)
Equity contribution to subsidiary		**(2,500)**	0	0
Acquisition of minority interest		**0**	(236)	(14)
Net cash provided (used) by investing activities		**(2,600)**	(372)	137
Financing activities				
Proceeds from exercise of stock options and other stock issued		**954**	1,533	1,554
Principal reductions on notes payable		**0**	(216)	(82)
Proceeds from new bank loan		**0**	0	222
Cash dividends paid to stockholders		**(5,923)**	(4,327)	(3,369)
Net cash used by financing activities		**(4,969)**	(3,010)	(1,675)
Net increase (decrease) in cash and cash equivalents		**(508)**	1,409	263
Cash and cash equivalents at beginning of period		**3,085**	1,676	1,413
Cash and cash equivalents at end of period	$	**2,577**	3,085	1,676

16. Unaudited Quarterly Financial Data

Summarized unaudited quarterly financial data is as follows (in thousands except per share amounts):

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		Quarters Ended March 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999	
Interest income	$	**13,061**	**14,090**	**15,348**	**16,422**	
Interest expense		**5,487**	**5,999**	**6,762**	**7,344**	
Net interest income		**7,574**	**8,091**	**8,586**	**9,078**	
Provision for loan loss		**322**	**350**	**418**	**416**	
Net income before income taxes		**4,435**	**4,604**	**4,931**	**4,840**	
Net earnings		**2,894**	**3,003**	**3,163**	**3,119**	
Basic earnings per share [1]		**0.30**	**0.32**	**0.33**	**0.33**	
Diluted earnings per share [1]		**0.30**	**0.31**	**0.33**	**0.33**	
Dividends per share [1]		**0.14**	**0.15**	**0.15**	**0.20**	[2]
Market range high-low [1]		**$21.82-$17.05**	**$24.38-$17.27**	**$23.88-$15.25**	**$18.75-$14.88**	

16. Unaudited Quarterly Financial Data . . . continued

	Quarters Ended			
	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998
Interest income .... $	13,240	13,464	13,597	13,420
Interest expense................................	5,936	6,008	5,937	5,669
Net interest income……………………	7,304	7,456	7,660	7,751
Provision for loan loss…………………	235	551	308	438
Net income before income taxes…….	4,260	4,350	4,413	4,290
Net earnings	2,694	2,715	2,735	2,771
Basic earnings per share [1]...............	0.29	0.29	0.29	0.30
Diluted earnings per share [1]............	0.28	0.29	0.29	0.29
Dividends per share [1]......................	0.11	0.12	0.13	0.21 [3]
Market range high-low [1]	$24.38-$19.21	$23.55-$21.90	$23.97-$20.71	$20.57-$17.16

	Quarters Ended			
	March 31, 1997	June 30, 1997	Sept. 30, 1997	Dec. 31, 1997
Interest income .... $	12,304	12,858	13,199	13,325
Interest expense................................	5,646	5,808	5,939	5,903
Net interest income……………………	6,658	7,050	7,260	7,422
Provision for loan loss…………………	197	248	228	216
Net income before income taxes…….	3,499	4,055	4,229	4,426
Net earnings	2,202	2,558	2,672	2,804
Basic earnings per share [1]...............	0.24	0.28	0.29	0.31
Diluted earnings per share [1]............	0.24	0.28	0.28	0.30
Dividends per share [1]......................	0.09	0.10	0.10	0.14 [2]
Market range high-low [1]	$13.64-$12.81	$17.36-$12.60	$16.12-$14.46	$20.66-$15.39

[1] Per share amounts adjusted to reflect effect of 10% stock dividend
[2] Special dividend was paid at $.05 per share.
[3] Special dividend was paid at $.07 per share.

17. Fair Value of Financial Instruments

Financial instruments have been defined to generally mean cash or a contract that implies an obligation to deliver cash or another financial instrument to another entity. For purposes of the Company's Consolidated Statement of Financial Condition, this includes the following items:

	1999		1998	
(dollars in thousands)	**Amount**	**Fair Value**	Amount	Fair Value
Financial Assets:				
Cash .... $	**46,277**	**46,277**	33,806	33,806
Federal funds sold........	**64**	**64**	5,883	5,883
Interest bearing cash deposits	**1,436**	**1,436**	2,494	2,494
Investment securities	**53,587**	**53,587**	58,890	59,178
Mortgage-backed securities	**137,798**	**137,798**	46,576	46,596
Loans........	**590,278**	**580,452**	518,208	525,465
FHLB and Federal Reserve Bank stock	**15,864**	**15,864**	13,585	13,585
Financial Liabilities:				
Deposits .... $	**576,282**	**578,979**	475,844	476,892
Advances from the FHLB of Seattle........	**194,650**	**190,681**	124,886	125,311
Repurchase agreements and other borrowed funds	**26,614**	**26,614**	18,707	18,707

Financial assets and financial liabilities other than securities are not traded in active markets. The above estimates of fair value require subjective judgments and are approximate. Changes in the following methodologies and assumptions could significantly affect the estimates. These estimates may also vary significantly from the amounts that could be realized in actual transactions.

Financial Assets - The estimated fair value approximates the book value of cash, federal funds sold and interest bearing cash deposits. For investment and mortgage-backed securities, the fair value is based on quoted market prices. The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made. The fair value of FHLB and Federal Reserve Bank stock approximates the book value.

Financial Liabilities - The estimated fair value of demand and savings deposits approximates the book value since rates are periodically adjusted to market rates. Certificates of deposit fair value is estimated by discounting the future cash flows using current rates for similar deposits. Advances from the FHLB of Seattle fair value is estimated by discounting future cash flows using current rates for advances with similar weighted average maturities. Repurchase agreements and other borrowed funds have variable interest rates, or are short term, so fair value approximates book value.

Off-balance sheet financial instruments - Commitments to extend credit and letters of credit represent the principal categories of off-balance sheet financial instruments. Rates for these commitments are set at time of loan closing, so no adjustment is necessary to reflect these commitments at market value. See Note 4 to consolidated financial statements.

18. Contingencies and Commitments

The Company is a defendant in legal proceedings arising in the normal course of business. In the opinion of management, the disposition of pending litigation will not have a material effect on the Company's consolidated financial position or results of operations.

19. Business Combinations

On August 31, 1998, the Company issued 536,154 shares of common stock in exchange for all of the outstanding stock of HUB Financial Corporation (HUB), parent company of Valley Bank of Helena (Valley). As a result of this transaction, the Company acquired the majority interest, 86.5%, of Valley. This business combination has been accounted for as a pooling-of interests combination, and,

19. Business Combinations . . . continued

accordingly, the consolidated financial statements for periods prior to the combination have been restated to include the accounts and results of operations of HUB.

The results of operations previously reported by the separate companies and the combined amounts presented in the accompanying consolidated financial statements are summarized below (in thousands):

		Six months ended June 30, 1998 (unaudited)	Years ended December 31, 1997	1996
Net earnings of:				
Glacier Bancorp, Inc.	$	4,892	9,180	7,425
HUB Financial Corporation.		408	874	782
Combined	$	5,300	10,054	8,207

Also on August 31, 1998, the Company issued 83,761 shares of common stock in exchange for the minority interest of 13.5% of Valley. This business combination has been accounted for as a purchase and, accordingly, the consolidated statement of operations for the year ended December 31, 1998 includes the results of operations related to this minority interest commencing August 31, 1998 and the proportional interest of the net assets acquired have been restated to estimated fair value.

On January 18, 1999, the Company issued 227,707 shares of common stock in exchange for all of the outstanding stock of Big Sky Western Bank. This business combination has been accounted for as a pooling-of-interests combination and, accordingly, the consolidated financial statements for periods prior to the combination have been restated to include the accounts and results of operations of Big Sky Western Bank. The results of operations previously reported by the separate companies and the combined amounts presented in the accompanying consolidated financial statements are summarized below (in thousands):

20. Branch Acquisitions

		Years Ended December 31, 1998	1997
Net earnings of:			
Glacier Bancorp, Inc.	$	10,744	10,054
Big Sky Western Bank		171	182
Combined	$	10,915	10,236

On October 8, 1999, the Company, through its largest subsidiary Glacier Bank, acquired the two Butte, Montana offices of Washington Mutual Bank with approximately $73,000,000 in deposits. This acquisition was accounted for as a purchase. The premium paid of $4,767,000 included a core deposit intangible of approximately $1,797,000 and goodwill of approximately $2,970,000.

21. Agreement to Merge

On September 9, 1999, the Company entered into a definitive agreement to acquire, through an exchange of stock, Mountain West Bank of Couer d'Alene, Idaho (Mountain West). It is expected that on February 4, 2000, the transaction will be completed with 844,257 shares of Company stock issued for 100 percent of the outstanding stock of Mountain West. Mountain West will operate as an independent, wholly-owned subsidiary of the Company. The acquisition is being accounted for using the pooling-of-interests method. Transactions accounted for as a pooling-of-interests reflect the assets, liabilities, stockholders' equity, and results of operations of the separate entities as though the entities had been combined as of the earliest date reported.

21. Agreement to Merge . . . continued

The following unaudited pro forma data summarizes the combined results of operations of the Company and Mountain West as if the combination had been consummated on December 31, 1999:

		Years ended December 31,		
(Dollars in thousands)		1999	1998	1997
Interest income	$	64,736	58,529	55,324
Interest expense		27,635	25,415	24,817
Net interest income		37,101	33,114	30,507
Net earnings	$	12,353	11,444	10,552
Basic earnings per share	$	1.19	1.14	1.09
Diluted earnings per share	$	1.18	1.11	1.07
Total assets	$	974,001	785,135	740,891
Total deposits	$	645,522	544,110	481,121

22. Operating Segment Information

As of December 31, 1998, the company adopted FASB Statement 131, Financial Reporting for Segments of a Business Enterprise. This statement requires that a public business enterprise report financial and descriptive information about its reportable operating segments. According to the statement, operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company evaluates segment performance internally based on individual bank charter, and thus the operating segments are so defined. All segments, except for the segment defined as "other," are based on commercial banking operations. The operating segment defined as "other" includes the Parent company, smaller nonbank operating units, and eliminations of transactions between segments.

The accounting policies of the individual operating segments are the same as those of the Company described in note 1. Transactions between operating segments are primarily conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations. Expenses for centrally provided services are allocated based on the estimated usage of those services.

22. Operating Segment Information . . . continued

The following is a summary of selected operating segment information for the years ended and as of December 31, 1999, 1998, and 1997 (in thousands):

1999		Glacier	Whitefish	Eureka	First Security	Valley Helena	Big Sky Western	Other	Consolidated
Net interest income	$	15,266	2,044	1,290	8,804	3,614	2,077	234	33,329
Provision for loan losses		470	66	24	600	155	191	0	1,506
Net interest income after provision for loan losses		14,796	1,978	1,266	8,204	3,459	1,886	234	31,823
Noninterest income		5,539	675	313	2,260	1,494	881	(98)	11,064
Merger expense and amortization of goodwill and core deposit intangibles		78	0	0	0	0	0	361	439
Other noninterest expense		10,750	1,502	986	4,567	2,977	2,096	709	23,587
Income before income taxes and minority interest		9,507	1,151	593	5,897	1,976	671	(934)	18,861
Minority interest								51	51
Income taxes expense (benefit)		3,303	348	191	2,132	731	231	(305)	6,631
Net income	$	6,204	803	402	3,765	1,245	440	(680)	12,179
Assets	$	460,257	52,203	28,879	193,548	82,587	66,255	388	884,117
Net loans		272,060	35,485	18,178	161,781	58,924	43,850	0	590,278
Deposits		276,880	34,261	18,514	143,645	65,095	41,034	(3,147)	576,282
Shareholders' equity		36,040	4,605	3,137	15,640	7,073	5,281	7,037	78,813
1998									
Net interest income	$	14,572	1,820	1,247	7,784	3,312	1,251	185	30,171
Provision for loan losses		670	78	12	645	85	42	0	1,532
Net interest income after provision for loan losses		13,902	1,742	1,235	7,139	3,227	1,209	185	28,639
Noninterest income		5,723	686	372	2,801	1,553	743	81	11,959
Merger expense and amortization of goodwill and core deposit intangibles		0	0	0	0	0	0	931	931
Other noninterest expense		10,523	1,347	971	4,151	3,010	1,680	527	22,209
Income before income taxes and minority interest		9,102	1,081	636	5,789	1,770	272	(1,192)	17,458
Minority interest								145	145
Income taxes expense (benefit)		3,238	343	217	2,138	659	103	(300)	6,398
Net income	$	5,864	738	419	3,651	1,111	169	(1,037)	10,915
Assets	$	370,686	42,643	24,471	164,546	69,924	39,376	(5,680)	705,966
Net loans		272,399	22,022	16,322	134,646	48,860	23,959	0	518,208
Deposits		201,211	34,179	17,797	139,348	57,807	31,385	(5,883)	475,844
Shareholders' equity		39,058	4,642	3,309	14,668	6,628	2,873	6,632	77,810
1997									
Net interest income	$	14,121	1,786	1,232	6,654	3,142	1,143	312	28,390
Provision for loan losses		345	0	42	360	60	82	0	889
Net interest income after provision for loan losses		13,776	1,786	1,190	6,294	3,082	1,061	312	27,501
Noninterest income		4,540	570	350	2,818	1,275	520	62	10,135
Merger expense and amortization of goodwill and core deposit intangibles		0	0	0	0	0	0	155	155
Other noninterest expense		10,145	1,399	947	4,050	2,709	1,334	480	21,064
Income before income taxes and minority interest		8,171	957	593	5,062	1,648	247	(106)	16,417
Minority interest								208	208
Income taxes expense (benefit)		2,958	312	202	1,896	614	65	(74)	5,973
Net income	$	5,213	645	391	3,166	1,034	182	(395)	10,236
Assets	$	365,921	41,276	25,565	144,382	69,875	32,724	1,648	681,391
Net loans		266,670	22,746	16,290	111,867	49,344	19,303	0	486,220
Deposits		173,371	30,918	16,385	127,801	57,687	25,449	(1,813)	429,798
Shareholders' equity		35,572	4,247	3,188	12,586	6,647	2,927	2,535	67,702

Independent Auditors' Report

The Board of Directors and Stockholders
Glacier Bancorp, Inc.:

We have audited the accompanying consolidated statements of financial condition of Glacier Bancorp, Inc. and subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Glacier Bancorp, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Billings, Montana
January 28, 2000

Management's Discussion and Analysis of Financial Condition And Results of Operations

The Company is a Delaware corporation and at December 31, 1999 had six commercial banks as subsidiaries: Glacier Bank, Glacier Bank of Whitefish, Glacier Bank of Eureka, First Security Bank of Missoula, Valley Bank of Helena, and Big Sky Western Bank. The following discussion and analysis includes the effect of the pooling-of-interests merger with HUB Financial Corporation (parent company of Valley Bank of Helena) and Big Sky Western Bank, and the purchase accounting treatment of the minority shares of Valley Bank of Helena. Prior period information has been restated to include amounts from the HUB Financial Corporation merger and the Big Sky merger. The Company reported earnings of $12,179,000 for the year ended December 31, 1999, or $1.28 basic earnings per share, and $1.27 diluted earnings per share, compared to $10,915,000, or $1.17 basic earnings per share and $1.15 diluted earnings per share, for the year ended December 31, 1998, and $10,236,000, or $1.12 basic and $1.10 diluted earnings per share for the year ended December 31, 1997. The continued improvement in net income can be attributed to an increase in earning assets, management of net interest margin, and strong non-interest income. The following narrative and tables focus on the significant financial changes which have taken place over the past years and include a discussion of the Company's financial condition, results of operations, 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. This 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 six subsidiaries are members of the Federal Home Loan Bank of Seattle. This membership provides for established lines of credit in the form of advances that are a supplemental source of funds for lending and other general business purposes. During 1999, all six financial institutions maintained liquidity levels in excess of regulatory requirements and deemed sufficient to meet operating cash needs.

Retention of a portion of Glacier Bancorp, Inc.'s earnings resulted in stockholders' equity at December 31, 1999 of $78,813,000, or 8.9% of assets, which compares with $77,810,000, or 11.0% of assets at December 31, 1998. The increase in assets of $178,151,000, or 25.2% during 1999 has outpaced earnings retention and increases resulting from the exercise of stock options. The stockholders' equity ratio remains well above required regulatory levels, and above the average of the Company's peers, providing flexibility in the management of assets.

Financial Condition

For the year ended December 31, 1999, consolidated assets increased $178,151,000, or 25.2% over the prior year. The following table summarizes the Company's major asset and liability components as a percentage of total assets at December 31, 1999, 1998, and 1997.

Major Balance Sheet Components as a Percentage of Total Assets

	December 31,		
	1999	1998	1997
Assets:			
Cash, and Cash Equivalents, Investment Securities, FHLB and Federal Reserve Stock	**28.8%**	22.8%	25.2%
Real Estate Loans and loans Held for Sale	**22.2%**	30.5%	32.8%
Commercial Loans	**29.2%**	27.5%	21.8%
Consumer Loans	**16.1%**	16.1%	17.0%
Other Assets	**3.6%**	3.0%	3.3%
	100.0%	100.0%	100.0%
Liabilities and Stockholder's Equity:			
Deposit Accounts	**65.2%**	67.4%	62.7%
FHLB Advances	**22.0%**	17.7%	21.2%
Other Borrowings and Repurchase Agreements	**3.0%**	2.6%	4.4%
Other Liabilities	**0.9%**	1.2%	1.8%
Stockholders' Equity	**8.9%**	11.0%	9.9%
	100.0%	100.0%	100.0%

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

GAP analysis
The following table gives a description of our GAP position for various time periods. As of December 31, 1999, we had a negative GAP position at six and twelve months. The cumulative GAP as a percentage of total assets for six months is a negative 17.65% which compares to a positive 2.51% at December 31, 1998 and .95% at December 31, 1997. The table also shows the GAP earnings sensitivity, and earnings sensitivity ratio, along with a brief description as to how they are calculated. The traditional one dimensional view of GAP is not sufficient to show a bank's ability to withstand interest rate changes. Superior earnings power is also a key factor in reducing exposure to higher interest rates. Using this analysis to join GAP information with earnings data produces a better picture of our strength and ability to handle interest rate change. The methodology used to compile this GAP information is based on our mix of assets and liabilities and the historical experience accumulated regarding their rate sensitivity.

	Projected maturity or repricing					
(dollars in thousands)	0-6 Months	6-12 Months	1 - 5 years	More than 5 years	Non-rate Sensitive	Total
Assets:						
Interest bearing deposits...................... $	1,500	-	-	-	-	1,500
Investment securities...........................	16,700	865	2,231	33,791	-	53,587
Mortgage-backed securities..................	5,052	4,110	28,146	100,490	-	137,798
Floating rate loans................................	157,755	7,668	89,690	8,441	-	263,554
Fixed rate loans....................................	61,159	41,855	156,101	67,609	-	326,724
Other earning assets............................	15,928	-	-	-	-	15,928
Non-earning assets..............................	12,527	-	-	-	72,499	85,026
Total Assets.. $	270,621	54,498	276,168	210,331	72,499	884,117
Liabilities and Equity:						
Deposits..	241,365	54,250	38,059	242,608	-	576,282
FHLB advances.....................................	158,659	878	12,598	22,515	-	194,650
Other borrowed funds and repurchase agreements……………………………	26,614	-	-	-	-	26,614
Other liabilities......................................	-	-	-	-	7,758	7,758
Equity..	-	-	-	-	78,813	78,813
Total liabilities and equity...................... $	426,638	55,128	50,657	265,123	86,571	884,117
Repricing gap... $	(156,017)	(630)	225,511	(54,792)	(14,072)	
Cumulative repricing gap..........................	(156,017)	(156,647)	68,864	14,072		
Cumulative gap as a % of total assets…	-17.65%	-17.72%	7.79%	1.59%		
Gap Earnings Sensitivity (1).. $		(956)				
Gap Earnings Sensitivity Ratio (2)................................. $		-7.85%				

(1) Gap Earnings Sensitivity is the estimated effect on income, after taxes of 39%, of a 1% increase or decrease in interest rates .01(-$156,646 + $61,092)

(2) Gap Earnings Sensitivity Ratio is Gap Earnings Sensitivity divided by the estimated yearly earnings of $12,179. A 1% increase in interest rates has this estimated percentage decrease effect on annual income.
This table estimates the repricing maturities of the Company's assets and liabilities, based upon the Company's assessment of the repricing characteristics of the various instruments. Non-contractual deposit liabilities are allocated among the various maturity categories as follows: non-interest bearing checking and interest- bearing checking are included in the more than 5 years category. Regular savings are included in the 1 - 5 years category. Money market balances are included in the less than 6 months

category. Mortgage-backed securities are at the anticipated principal payments based on the weighted-average-life.

Interest Rate Spread

One way to protect against interest rate volatility is to maintain a comfortable interest spread between yields on assets and the rates paid on interest bearing liabilities. The interest spread for 1999 was the same as the prior year. The net interest margin decreased slightly in 1999 from 4.79% to 4.58%, primarily the result of an increase in interest earning assets at lower rates. Increased asset levels, and increased interest-free funding resulted in significantly higher net interest income.

	December 31, [1]		
	1999	1998	1997
Combined weighted average yield on loans and investments [2]....	8.00%	8.24%	8.44%
Combined weighted average rate paid on savings deposits and borrowings	4.31%	4.55%	4.64%
Net interest spread..	3.69%	3.69%	3.80%
Net interest margin [3]...	4.58%	4.79%	4.72%

(1) Weighted averages are computed without the effect of compounding daily interest.
(2) Includes dividends received on capital stock of the Federal Home Loan Bank and Federal Reserve Bank.
(3) The net interest margin (net yield on average interest earning assets) is interest income from loans and investments (tax free income adjusted for tax effect) less interest expense from deposits, FHLB advances, and other borrowings, divided by the total amount of earning assets.

Management's Discussion and Analysis of Financial Condition and Results of Operations Year Ended December 31, 1999 Compared to December 31, 1998

Financial Condition

The Company acquired two Butte, Montana offices of Washington Mutual, with approximately $73,000,000 in deposits, on October 8, 1999. Those branches have been fully integrated into Glacier Bank, the largest subsidiary of the Company. The following information includes the impact of that acquisition which was accounted for as a purchase.

Total assets increased $178,151,000, or 25.2% over the December 31, 1998 asset level. Total loans outstanding increased 13.9%, or $72,984,000 with the largest increase occurring in the commercial classification which increased $63,711,000, or 32.8%. Consumer loans increased $28,733,000, or 25.2%. Residential real estate loans and loans held for sale declined $19,460,000 or 9.0%, in accordance with management's plan to reduce the balances on real estate loans which generally have lower interest rates than other loan types. Investment securities increased $85,899,000, or 81.4%. Higher investment yields, a steeper yield curve, and the Butte branch acquisition from Washington Mutual provided an opportunity to increase the investment portfolio.

Total liabilities increased $177,148,000, or 28.2%, with non-interest bearing deposits up $13,183,000, or 13.2%, and interest bearing deposits up $87,255,000, or 23.2%. Federal Home Loan Bank advances increased $69,764,000, or 55.9%. Securities sold under repurchase agreements and other borrowed funds were up $7,907,000, or 42.3%.

Total stockholders' equity increased $1,003,000, or 1.3%, the result of earnings retention, offset by a $6,294,000 net change in the unrealized loss on the securities available-for-sale.

Results of Operations

Interest Income - Interest income was $58,921,000 compared to $53,721,000 for the years ended December 31, 1999 and 1998, respectively, a $5,200,000, or 9.7% increase. The weighted average yield on the loan and investment portfolios decreased from 8.2% to 8.0%. This decrease in yield was offset by increased volumes in loans, and the change in loan mix from real estate loans to higher yielding commercial and consumer loans, increasing interest income.

Interest Expense - Interest expense was $25,592,000 for the year ended December 31, 1999, up from $23,550,000 in 1998, a $2,042,000, or 8.7%, increase. The increase is due to higher balances in interest bearing deposits, Federal Home Loan Bank advances, repurchase agreements and other borrowed funds during 1999. The increased interest expense resulting from the higher balances in interest bearing liabilities was partially offset by reduced rates and by the increase in non-interest bearing deposits. The yield on interest bearing liabilities declined from 4.6% in 1998 to 4.3% in 1999.

Net Interest Income - Net interest income was $33,329,000 compared to $30,171,000 in 1998, an increase of $3,158,000, or 10.5%, the net result of the items discussed in the above paragraphs.

Provision for Loan Losses - The provision for loan losses was $1,506,000 for 1999, down slightly from $1,532,000 for 1998. Total loans charged off, net of recoveries, were $571,000 in 1999, down from the $678,000 experienced in 1998. The allowance for loan losses balance was $6,068,000 at year end 1999, up from $5,133,000 at year end 1998, an increase of $935,000. At December 31, 1999, the non-performing assets (non-accrual loans, accruing loans 90 days or more overdue, real estate acquired by foreclosure or deed-in-lieu thereof, and repossessed personal property) totalled $2,254,000 or .26% of total assets; compared to $2,795,000 or .40% of total assets at December 31, 1998. The allowance for loan losses was 269% of non-performing assets at December 31, 1999, up from 184% the prior year end. The allowance for loan losses as a percentage of loans increased to 1.02% from .98% at the 1999 and 1998 year ends. The allowance for losses has increased primarily because of the changing mix of loans from residential real estate to more commercial and consumer loans which historically have greater credit risk along with higher loan rates.

Non-interest income - Total non-interest income of $11,064,000 was down $895,000, or 7.5% from 1998 which included one time gains on the sale of the credit card portfolio of $457,000, and $102,000 from the sale of the trust business. Loan fees and charges were $992,000 below the prior year, due mostly to a slow down in real estate loan origination and sale activity resulting from higher mortgage rates in 1999. Increased volumes in deposit accounts resulted in an increase in fee income of $754,000 from service charges and other fees. Other income was down $618,000 most of which was the gain on sale of credit card and trust business in 1998. The gain on sale of investments was $6,000 in 1999, down from $45,000 in 1998.

Non-interest expense - Total non-interest expense increased from $23,285,000 to $24,077,000 an increase of $792,000, or 3.4%. Compensation, employee benefits, and related expenses increased $899,000, or 7.7% from 1998, with the new branches and expanded data processing staff included. Occupancy and equipment expense increased $381,000, or 13.3% from 1998, the result of bringing more data processing functions in-house, the substantial investment in enhanced technology for transaction imaging and internet banking, and additional expenses from the new branch offices. Data processing and other expenses were down $394,000, or 4.6%, however, after adjusting for the 1998 merger and reorganization expenses there was an increase of $237,000, primarily the result of increased volumes and $78,000 in amortization of the premium paid for the Butte acquisition. The other category of expense is the minority interest in subsidiaries which decreased $94,000, resulting from the acquisition of minority shares in 1998.

The efficiency ratio (non-interest expense)/(net interest income + non-interest income), was 53.1% in 1999, up from 52.7% in 1998, as compared with similar sized bank holding companies nationally which average approximately 63.5%.

Management's Discussion and Analysis of Financial Condition and Results of Operations
Year Ended December 31, 1998 Compared to December 31, 1997

Financial Condition

Total assets increased $24,575,000, or 3.6% over the December 31, 1997 asset level. Total loans outstanding increased 6.6%, or $31,988,000 with the largest increase occurring in the commercial classification which increased $44,744,000, or 29.9%. Real estate loans decreased $9,541,000 or 4.2% the result of managements's decision to not retain long-term mortgages in the portfolio in this low interest rate environment. Consumer loans decreased $2,482,000, or 2.1%, the result of selling the credit card portfolio. Investment securities decreased $16,668,000, or 13.6%. With the flat yield curve during 1998 there were limited attractive investment opportunities.

Total liabilities increased $14,467,000, or 2.4%, with interest bearing deposits up $36,672,000, or 10.8%, and non-interest bearing deposits up $9,374,000, or 10.3%. Federal Home Loan Bank advances decreased $20,774,000, or 14.3%. Securities sold under repurchase agreements and other borrowed funds were down $11,253,000, or 37.6%.

Total stockholders' equity increased $10,108,000, or 14.9%, the result of earnings retention, and a $18,000 increase in the net unrealized gains on securities available-for-sale.

Results of Operations

Interest Income - Interest income was $53,721,000 compared to $51,686,000 for the years ended December 31, 1998 and 1997, respectively, a $2,035,000, or 3.9% increase. The weighted average yield on the loan and investment portfolios decreased from 8.44% to 8.24%. This decrease in yield was offset by increased volumes in loans, and the change in loan mix from real estate loans to higher yielding commercial loans, increasing interest income.

Interest Expense - Interest expense was $23,550,000 for the year ended December 31, 1998, up slightly from $23,296,000 in 1997, a $254,000 increase. The increase is due to higher balances in interest bearing deposits, which was largely offset by lower amounts outstanding in Federal Home Loan Bank advances, repurchase agreements and other borrowed funds during 1998. Increased balances in non-interest bearing deposits also reduced the need for interest bearing funding.

Net Interest Income - Net interest income was $30,171,000 compared to $28,390,000 in 1997, an increase of $1,781,000, or 6.3%, the net result of the items discussed in the above paragraphs.

Provision for Loan Losses - The provision for loan losses was $1,532,000 for 1998, up from $889,000 for 1997. Total loans charged off, net of recoveries, were $678,000 in 1998, up from the $497,000 experienced in 1997. The allowance for loan losses balance was $5,133,000 at year end 1998, up from $4,279,000 at year end 1997, an increase of $854,000. At December 31, 1998, the non-performing assets (non-accrual loans, accruing loans 90 days or more overdue, real estate acquired by foreclosure or deed-in-lieu thereof, and repossessed personal property) totaled $2,795,000 or .40% of total assets; compared to $1,620,000 or .24% of total assets at December 31, 1997. The reserve for loan losses as a percentage of loans increased to .98% from .87% at the 1998 and 1997 year ends. The reserve for losses has increased primarily because of the changing mix of loans from residential real estate to more commercial loans which historically carry additional credit risk along with higher loan rates.

Non-interest income - Total non-interest income of $11,959,000 was up $1,824,000, or 18.0% from 1997. Loan fees and charges were $1,105,000 greater than the prior year. Most of this increase came from the large volume of real estate loan origination and sale activity resulting from low mortgage rates. Increased volumes in deposit accounts was the reason for the $138,000 increase in service charges and other fees. Other income, which includes a gain on the sale of the credit card portfolio of $457,000, and $102,000 from the sale of the trust business, was up $732,000.

Non-interest expense - Total non-interest expense increased from $21,427,000 to $23,285,000 an increase of $1,858,000, or 8.7%. Of this increase $852,000 was from merger and reorganization expenses, leaving an increase from operations of $1,006,000, or 4.7%. Compensation, employee benefits, and related expenses increased $507,000, or 4.5% from 1997. Occupancy expense increased $388,000, or 15.6% from 1997. The change to an in-house data center, a new branch of Valley Bank of Helena, and a new branch and corporate office building in Kalispell were the main reasons for the increase. Data processing expense decreased $83,000, the result of bringing more data processing services in-house during 1998. The efficiency ratio (non-interest expense)/(net interest income + non-interest income), was 52.7% in 1998, down from 54.7% in 1997, as compared with similar sized bank holding companies nationally which average about 62%.

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*Acquisition completed February 4, 2000 -- not included in financial statements