

2000
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 seven principal subsidiaries: Glacier has long-standing roots in northwest Montana dating back to 1955, and owns all of the outstanding common stock of Glacier Bank of Kalispell, First Security Bank of Missoula, Valley Bank of Helena, Big Sky Western Bank, all in Montana, Mountain West Bank of Coeur d'Alene, Idaho, and approximately 94% and 98% of the outstanding common stock of Glacier Bank of Whitefish and Glacier Bank of Eureka, Montana, respectively. The seven subsidiaries are members of the Federal Deposit Insurance Corporation (FDIC) and are members of the Federal Home Loan Bank of Seattle. All except Mountain West Bank are members of 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
Ralph K. Holliday
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
401 North 31st Street
Billings, MT 59101

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: Douglass Dye
Going to the Sun Mountain in
Glacier National Park, Montana

Stock and Dividend Information

2000 Cash Dividend Data (1)

<u>Quarter</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Share Amount</u>
1	April 11, 2000	April 20, 2000	\$0.14
2	July 11, 2000	July 20, 2000	\$0.15
3	Oct 10, 2000	Oct 19, 2000	\$0.15
4	Jan 9, 2001	Jan 18, 2001	\$0.15

Anticipated Dividend Dates 2001 (*)

<u>Quarter</u>	<u>Record Date</u>	<u>Payment Date</u>
1	April 10, 2001	April 19, 2001
2	July 10, 2001	July 19, 2001
3	Oct 9, 2001	Oct 18, 2001
4	Jan 8, 2002	Jan 17, 2002

(*) Subject to approval by Board of Directors.

Common Stock Price (1)

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
High.....	\$14.78	\$21.71	\$22.16	\$18.78	\$12.65	\$10.02
Low.....	\$11.00	\$13.53	\$15.60	\$11.45	\$8.88	\$6.83
Close.....	\$12.25	\$14.66	\$18.18	\$18.78	\$12.27	\$9.17
Price/Earnings (2).....	10.0	13.6	17.8	18.8	15.2	9.9

(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

<u>Year</u>	<u>Cash Dividends Declared (1)</u>	<u>Stock Dividends/Splits</u>	<u>Distribution Date of Stock Dividends/Splits</u>
1991	\$0.14	-	-
1992	\$0.17	10% Stock Dividend	May 28, 1992
1993	\$0.21	10% Stock Dividend	May 28, 1993
1994	\$0.25	10% Stock Dividend	May 26, 1994
1995	\$0.28	10% Stock Dividend	May 25, 1995
1996	\$0.32	10% Stock Dividend	May 23, 1996
1997	\$0.39	3 for 2 stock split	May 27, 1997
1998	\$0.47	10% Stock Dividend	October 1, 1998
1999	\$0.58	10% Stock Dividend	May 27, 1999
2000	\$0.59	10% Stock Dividend	May 25, 2000

(1) Restated for stock dividends and stock splits.

Ten-year compound annual dividend growth rate is 15.2%.

Ten-year compound total return is 21.9%.

Shareholder's 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.

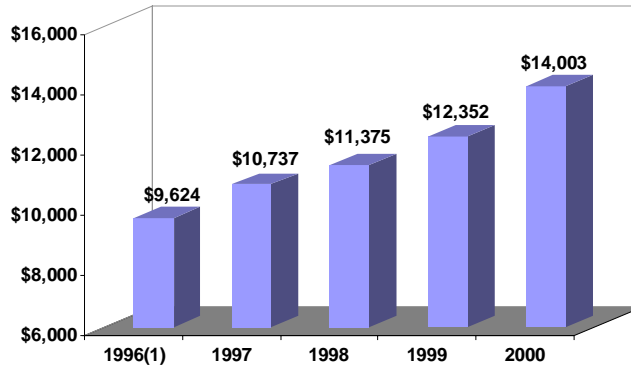
Summary of Operations and Selected Financial Data

		At December 31,				
(dollars in thousands , except per share data)		2000	1999	1998	1997	1996
Summary of Financial Condition:						
Total assets.....	\$	1,056,712	974,001	786,802	748,526	675,580
Investment securities.....		211,888	209,312	119,087	128,638	126,689
Loans receivable, net.....		733,561	652,208	571,188	526,234	478,868
Allowance for loan losses.....		(7,799)	(6,722)	(5,668)	(4,654)	(4,106)
Deposits.....		720,570	644,106	546,503	487,539	433,434
Advances.....		196,791	208,650	125,886	147,660	152,116
Other borrowed funds and repurchase agreements.....		29,529	26,614	18,707	29,960	17,871
Stockholders' equity.....		98,113	85,056	84,146	73,537	61,620
Equity per common share*.....		8.57	7.44	7.85	5.75	5.20
Equity as a percentage of total assets.....		9.28%	8.73%	10.69%	9.82%	9.12%
		Years ended December 31,				
(dollars in thousands, except per share data)		2000	1999	1998	1997	1996
Summary of Operations:						
Interest income.....	\$	78,837	64,719	58,828	55,612	50,481
Interest expense.....		37,357	<u>27,635</u>	<u>25,470</u>	<u>24,925</u>	<u>22,639</u>
Net interest income.....		41,480	37,084	33,358	30,687	27,842
Provision for loan losses.....		1,864	1,723	1,735	1,052	1,017
Non-interest income.....		13,294	12,809	13,596	11,057	10,421
Non-interest expense.....		31,327	<u>29,096</u>	<u>27,170</u>	<u>23,709</u>	<u>23,027</u>
Earnings before income taxes.....		21,583	19,074	18,049	16,983	14,219
Income taxes.....		7,580	<u>6,722</u>	<u>6,674</u>	<u>6,246</u>	<u>5,740</u>
Net earnings.....		14,003	<u>12,352</u>	<u>11,375</u>	<u>10,737</u>	<u>8,479</u>
Basic earnings per common share*.....		1.22	1.08	1.02	1.00	0.81
Diluted earnings per common share*.....		1.21	1.07	1.00	0.98	0.80
Dividends declared per share*.....		0.59	0.58	0.47	0.39	0.32
		At or for the years ended December 31,				
(dollars in thousands)		2000	1999	1998	1997	1996
Ratios:						
Net earnings as a percent of average assets.....		1.39%	1.41%	1.47%	1.50%	1.32%
average stockholders' equity.....		15.83%	14.60%	14.43%	15.89%	14.45%
Net interest margin on average earning assets (tax equivalent).....		4.48%	4.67%	4.80%	4.74%	4.75%
Allowance for loan losses as a percent of loans....		1.05%	1.02%	0.98%	0.88%	0.85%
Allowance for loan losses as a percent of nonperforming assets.....		372%	295%	185%	230%	215%
		At or for the years ended December 31,				
(dollars in thousands)		2000	1999	1998	1997	1996
Other Data:						
Loans originated and purchased.....	\$	570,652	528,325	516,497	341,766	363,891
Loans serviced for others.....	\$	203,836	159,451	169,378	156,288	142,878
Number of full time equivalent employees.....		423	434	412	368	361
Number of offices.....		30	31	27	26	24
Number of shareholders of record.....		1,228	1,212	929	772	758

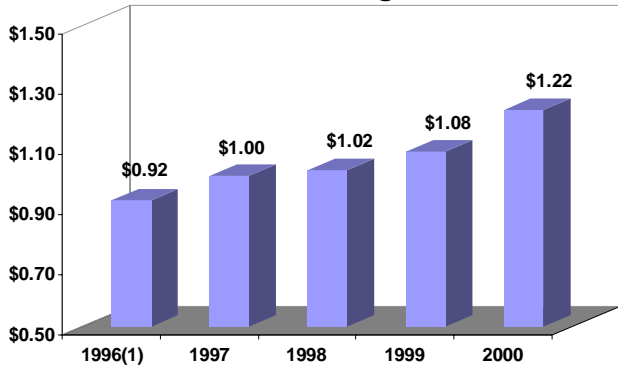
*revised for stock splits and dividends

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.

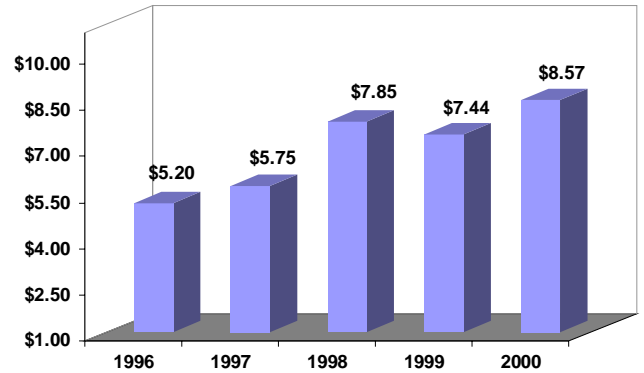
Net Earnings



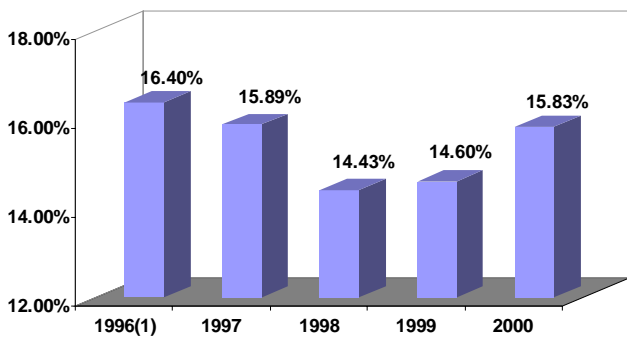
Basic Earnings Per Share



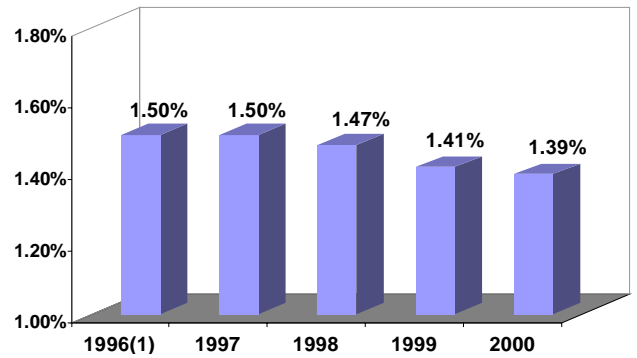
Equity Per Common Share



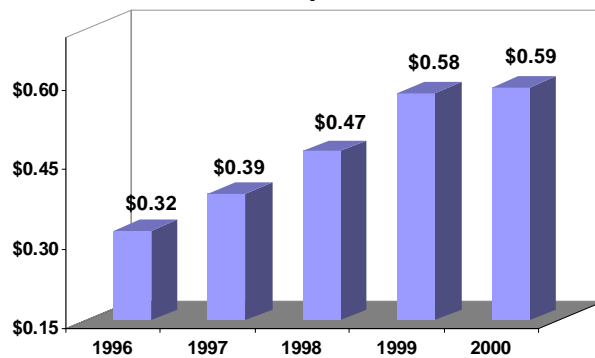
Return on Average Equity



Return on Average Assets

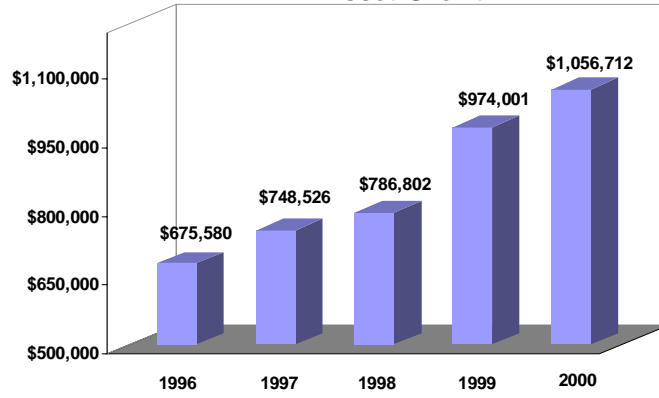


Dividends per Common Share

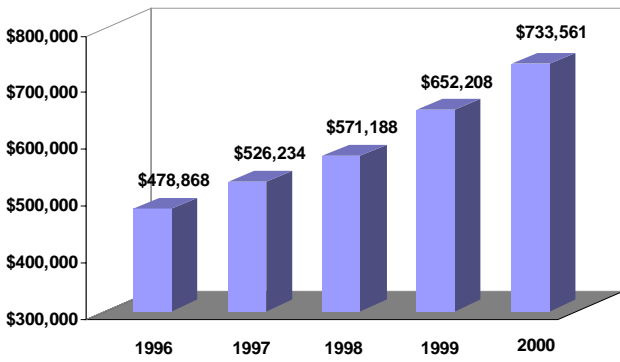


(1) Without merger and SAIF expense

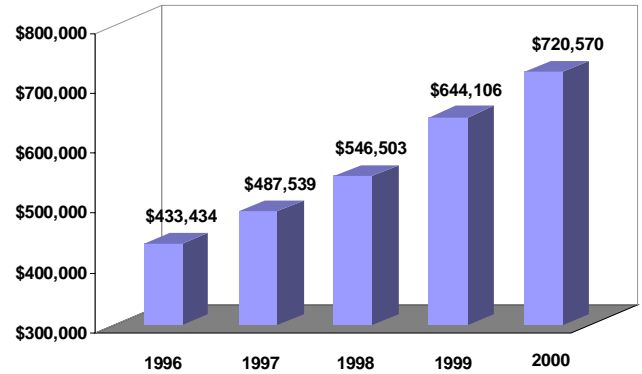
Asset Growth



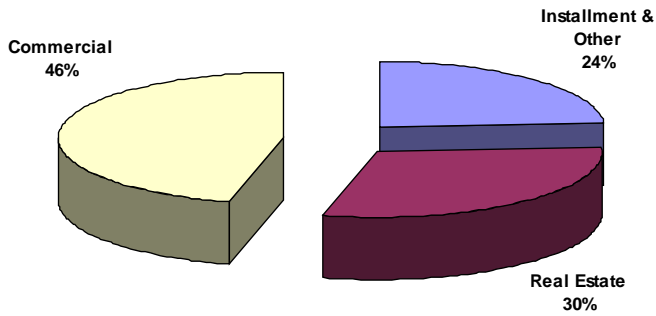
Net Loans



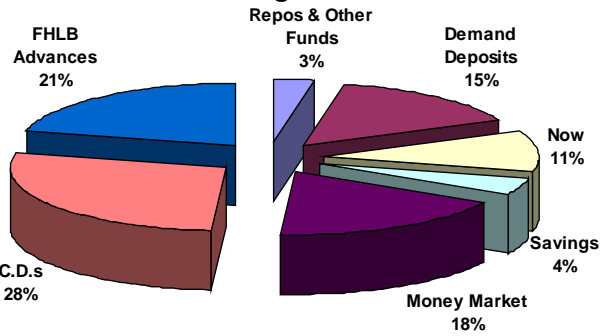
Deposits



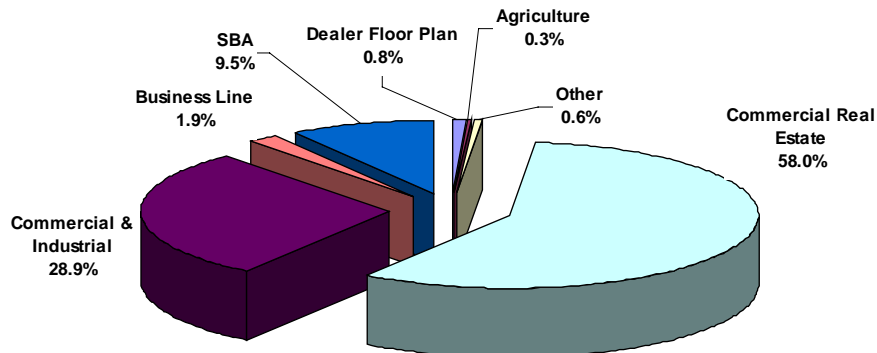
Loan Allocation



Funding Sources



Commercial Loan Mix



LETTER TO SHAREHOLDERS

Dear Shareholders,

2000 was a very good year for your Company. The financial performance this past year confirms and reassures our belief in community banking as a viable strategy that is profitable, competitive and focused.

In 2000 we produced record earnings of \$14 million, or basic earnings per share of \$1.22. This represents an increase of 13 percent for the year. We are proud and grateful to continue to provide superior returns to you, our shareholders, not just this past year, but over an extended period of time. These record results reflect innovation and a strategic initiative that works. We continue to maintain our A+ Standard and Poor's ranking for dividend and earnings growth. Last year this honor was bestowed on only 17 publicly traded financial institutions in the country. For the past ten years our compounded earnings per share growth rate was over 11 percent and our compounded dividend growth rate was over 15 percent. One of the few disappointments we experienced in 2000 was our share price performance. As significant shareholders, it was frustrating for our directors, management and staff to see their hard work and financial results substantially go unnoticed. No matter how successful we are as a company, the price of our stock is often times outside our control. Yet we are not alone. Many other well-managed, profitable banks find themselves in the same position. However, that does not lessen our conviction that fundamentals do count and are important. It is just a matter of time until investors again find value in bank stocks. When that takes place superior performance will once again be rewarded.

Your Company also achieved another milestone in 2000. Total assets reached \$1 billion for the first time in June of last year and ended the year at \$1,057,000, an increase of eight percent. Over the past few years your Company has experienced tremendous internal and external growth in the asset base. Internal growth was very strong in 2000 as each of our existing community banks exhibited excellent loan and deposit growth. In fact, since joining Glacier Bancorp, Inc. our banks have witnessed remarkable internal growth in assets. First Security Bank of Missoula in four years has grown from \$120 million to \$214 million; Valley Bank of Helena in slightly over two years has gone from \$72 million to \$88 million; Big Sky Western Bank in less than two years has gone from \$42 million to \$77 million; and Mountain West Bank in Coeur d'Alene in less than a year has gone from \$91 million to \$127 million. We feel this rate of growth is a powerful testament to our overall philosophy of allowing each of our community banks the independence and autonomy to do what they think it takes to be successful in their distinct markets and at the same time provide them the technical, professional and financial resources of a much larger bank.

Our internal growth comes primarily from originating loans and attracting deposits. However, when opportunities arise we also utilize Federal Home Loan Bank advances for funding shortfalls and as an asset-liability management tool. Loan growth, the catalyst that drives our earnings, grew by over \$81 million in the year 2000, or 12 percent. Commercial and consumer loans accounted for over \$75 million of this growth. These higher yielding loans are major contributors to our increased revenue stream. Because commercial and consumer lending are indeed relationship businesses, as community bankers our focus is relationship banking. As a result, we feel confident these portfolios will continue to expand and comprise an even greater segment of our overall loan portfolio.

Unlike the importance of strong relationships imbedded in commercial and consumer lending, mortgage lending each year becomes more transactional. Advances in technology and the growth of government sponsored enterprises (e.g. FHLMC and FNMA) have commoditized mortgage lending. It is a cyclical business with a strong correlation to shifts in interest rates. Our mortgage origination volume last year was impacted by the rise in interest rates throughout most of 2000. Although Mountain West Bank had a great year, originating over \$100 million in real estate loans, mortgage production at our other banks was down from the prior year. The fees generated from our mortgage activity is still an important component of each of our banks' noninterest income. Last year fees from mortgage originations were down over \$1 million from 1999 and \$1.8 million over the record year of 1998. We are cautiously optimistic that the lower mortgage rates we are now seeing should hopefully improve this sector of our business.

It has become extremely difficult to grow deposits in the environment that exists today. Because of these challenges, it is especially gratifying to report that in 2000 our deposits grew by \$76 million, or 12 percent. As a country we are saving less and less each year. This, combined with increased competition for each savings

dollar, is creating a major challenge for banks to attract enough deposits to fund their loan production. Core deposits, especially checking accounts, provide us with a low-cost funding source, which has a significant impact on profits. Checking accounts not only create higher margins but also higher levels of fee income. Total checking account balances grew by \$17 million, or seven percent in 2000. As interest rates rose last year, these balances were instrumental in reducing any further compression in our net interest margin.

Your Company has also been very successful in growing externally. The acquisitions completed the past four years have strategically increased our share in some excellent markets, diversified the Company geographically and brought a wealth of talent to Glacier Bancorp, Inc.

In September we announced two additional acquisitions. As of March 16, 2001 these transactions have been completed, making your Company the largest publicly traded commercial bank in the Inland Northwest. However, the least of our concerns is how large we become. Instead, we have a disciplined approach to buying companies. We price fairly and expect a transaction to create value for our shareholders immediately. We are confident these latest two purchases meet those criteria.

On September 14 we announced the purchase of seven offices from Wells Fargo Company as part of their required divestiture of certain branches located in southern Idaho and northern Utah. The addition of these seven offices to our existing Mountain West franchise was meaningful for a number of reasons. First, it allows us to leverage the banks' talent over a broader asset base. Second, it immediately gives us a large customer and valuable deposit base in some high-growth markets and third, it further expands our footprint in markets with differing economies and industries. In Boise we now occupy four offices. By late summer, we will replace our temporary facility in downtown Boise with a new office in Meridian. This will supplement the two branches we acquired in Boise and the one in Nampa. Deposits in these four locations total approximately \$100 million.

In addition we are excited to expand our presence in Sun Valley with an office in both Hailey and Ketchum. Also, we gain a presence in the prosperous Utah market with an office in upscale Park City and one in Brigham City.

Our staff at Mountain West Bank has worked continuously since early October to complete the purchase and convert all customer relationships by mid-March. Now complete, Mountain West Bank operates 11 offices in Idaho and northern Utah with assets exceeding \$300 million. We are excited to bring our community banking philosophy to these new markets.

On September 20 we announced the acquisition of WesterFed Financial Corporation, the holding company for Montana's largest savings bank, Western Security Bank. Our sole objective in pursuing this transaction was to create additional earnings accretion for you, our shareholders. The transaction closed on February 28 and once fully integrated, will bring the Company's asset base in central and western Montana to approximately \$1.8 billion. This transaction also brought with it a large customer base and an established network of banking offices, which we hope to leverage for increased growth and profitability. However, we have committed to one single purpose in this process that is to assure that the highest level of customer care is maintained. As we move forward with these acquisitions this year, we understand there are still banks to run. We know the care provided to our existing customers also must be maintained. We are very mindful of this and are doing everything within our power to make sure quality customer care is the focus of any and all integration decisions for all our customers.

The acquisition and subsequent integration gives our existing community banks the unique opportunity to increase their market share through this expanded customer base, offer additional products and services to these customers and take advantage of the efficiencies derived from the greater use of their existing infrastructure. In addition, it will allow us to effectively utilize the human resources of both companies. However, nothing that has the potential to be this rewarding comes easy. We have never taken on an acquisition of this magnitude before and realize we will be judged by our success in integrating these two companies. Since October a great deal of time, energy and resources have gone into properly executing this integration. In order to make sure this project is done right, we conduct weekly meetings with senior staff from both companies to make sure all relative details are addressed and responsibilities assigned. We have the opportunity to create something special. This will happen provided we stay focused and diligent until the process is complete.

Our commitment to asset quality must continue to be one of our primary focuses and cannot be compromised. All of our banks take great pride in maintaining our nonperforming loans and chargeoffs at very low levels. At the end of 2000 our credit quality remained very high. We added over \$1 million to our loan loss reserve last year. Our reserves covered our nonperforming loans 3.7 times. This was the highest coverage ratio we have had in over five years. Nonperforming loans were also at a five year low representing only .20 percent of total assets. I would like to congratulate all our credit staff in each of the banks for a terrific job. Our country is still in the midst of its longest ever economic expansion. It is no longer a matter of if, but when, the next slowdown occurs. When it happens, we think we will be prepared. In the past in good times and bad, knowing and understanding our niche competencies, sound and collaborative underwriting and early recognition and decisive action on problem loans has served us well. We must assure that these principles continue to be observed.

Our capital position at year-end remained strong. Equity as a percentage of total assets was 9.28 percent, consistent with our average over the past five years. Because of our strong capital base, we again increased our cash dividend to our shareholders. Last year we paid a cash dividend of \$0.59 per share. Over the past five years we have been able to double the per share dividend amount. Our eighth ten percent stock dividend was also issued in May 2000.

Last year in anticipation of the acquisitions, we made the decision to issue \$35 million in trust preferred securities. On January 30, 2001, Glacier Bancorp, Inc. issued 1,400,000 of trust preferred securities. The net proceeds of approximately \$33.5 million were in part used to finance the Wells Fargo and WesterFed acquisitions and for other general corporate purposes. We were extremely pleased with the response this offering received from individual investors, many of which are from our local areas. The new security trades under the symbol GBCIP.

So as we bring to a close the year 2000 and look forward to the challenges and opportunities that lie before us, we can't help but be thankful for our good fortune and all the positive things we have accomplished. It all starts with people and we have the best. This time next year I believe this will be obvious to everyone as we successfully complete the biggest integration in our history. Our people will make it happen. I would personally like to thank Ralph Holliday, President and CEO of WesterFed, and his staff for the commitment and the willingness they have shown to make this acquisition a success. Thanks also to our Company and bank Directors for their guidance and hard work. Our community banks benefit so much from the support our Directors provide. And to you, our shareholders, thank you for your patience this past year. We are confident this patience will be rewarded.

It is appropriate to close with what continues to be the three beliefs that set us apart from other banks, beliefs that our whole banking philosophy is built on. 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. We come to work each day and strive to continue building a better Company, a Company that meets the needs of our banking customers and creates value for you our shareholders.

Sincerely,

Michael J. Blodnick
President and Chief Executive Officer

Glacier Bancorp, Inc.
Consolidated Statements of Financial Condition

(dollars in thousands except per share data)	December 31,	
	2000	1999
Assets:		
Cash on hand and in banks	\$ 41,456	50,590
Federal funds sold.....	--	64
Interest bearing cash deposits.....	10,330	1,711
Cash and cash equivalents.....	51,786	52,365
Investment securities, available-for-sale	211,888	209,312
Loans receivable, net	726,503	646,312
Loans held for sale.....	7,058	5,896
Premises and equipment, net	25,016	24,670
Real estate and other assets owned, net	291	550
Federal Home Loan Bank of Seattle stock, at cost	16,436	15,134
Federal Reserve Bank stock, at cost.....	1,662	1,467
Accrued interest receivable	6,637	5,611
Goodwill and other intangibles, net of accumulated amortization of \$ 1,556 and \$ 1,012 at December 31, 2000, and 1999, respectively.....	6,493	7,035
Deferred tax asset.....	--	2,959
Other assets.....	2,942	2,690
	\$ 1,056,712	974,001
Liabilities:		
Deposits - non-interest bearing	\$ 141,207	126,927
Deposits - interest bearing	579,363	517,179
Advances from Federal Home Loan Bank of Seattle	196,791	208,650
Securities sold under agreements to repurchase	24,877	19,766
Other borrowed funds.....	4,652	6,848
Accrued interest payable.....	4,591	2,717
Current income taxes.....	17	108
Deferred income taxes	578	--
Minority interest	338	308
Other liabilities.....	6,185	6,442
Total liabilities.....	958,599	888,945
Stockholders' equity:		
Preferred shares, 1,000,000 shares authorized. None outstanding at December 31, 2000 and 1999.....	--	--
Common stock, \$.01 par value per share. 50,000,000 shares authorized, 11,447,150 and 10,394,041 outstanding at December 31, 2000 and 1999, respectively.....	114	104
Paid-in capital.....	101,828	87,387
Retained earnings (accumulated deficit) - substantially restricted.....	(4,087)	2,996
Accumulated other comprehensive income (loss)	258	(5,431)
Total stockholders' equity	98,113	85,056
	\$ 1,056,712	974,001

See accompanying notes to consolidated financial statements.

Glacier Bancorp, Inc.
Consolidated Statements of Operations

(dollars in thousands except per share data)	Years ended December 31,		
	2000	1999	1998
Interest Income:			
Real estate loans.....	\$ 19,557	17,875	19,404
Commercial loans.....	28,784	21,499	18,250
Consumer and other loans.....	14,856	12,367	11,907
Investment securities and other.....	15,640	12,978	9,267
Total Interest Income.....	78,837	64,719	58,828
Interest Expense:			
Deposits	22,674	16,494	16,567
Advances	13,454	9,460	7,939
Securities sold under agreements to repurchase	949	1,318	772
Other borrowed funds.....	280	363	192
Total Interest Expense.....	37,357	27,635	25,470
Net Interest Income	41,480	37,084	33,358
Provision for loan losses	1,864	1,723	1,735
Net Interest Income After Provision For Loan Losses.....	39,616	35,361	31,623
Non-Interest Income:			
Service charges and other fees.....	7,839	6,416	5,917
Miscellaneous loan fees and charges.....	1,917	2,081	2,089
Gain on sale loans.....	2,049	3,108	3,862
Gain on sale of investments, net.....	51	23	62
Other income.....	1,438	1,181	1,666
Total Non-Interest Income.....	13,294	12,809	13,596
Non-Interest Expense:			
Compensation, employee benefits and related expenses:	16,214	14,557	13,391
Occupancy expense.....	4,830	4,172	3,587
Data processing expense.....	1,313	1,215	1,347
Other expense.....	8,909	9,101	8,700
Minority interest.....	61	51	145
Total Non-Interest Expense.....	31,327	29,096	27,170
Earnings before income taxes.....	21,583	19,074	18,049
Federal and state income tax expense	7,580	6,722	6,674
Net Earnings.....	\$ 14,003	12,352	11,375
Basic earnings per share.....	\$ 1.22	1.08	1.02
Diluted earnings per share.....	\$ 1.21	1.07	1.00

See accompanying notes to consolidated financial statements.

Glacier Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
and Comprehensive Income
Years ended December 31, 2000, 1999, and 1998

(Dollars in thousands except per share data)	Common Stock		Paid-in capital	Retained earnings (accumulated deficit) substantially restricted	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount				
Balance at December 31, 1997	8,259,742	\$ 83	42,760	29,504	1,191	73,538
Comprehensive income:						
Net earnings.....	--	--	--	11,375	--	11,375
Unrealized loss on securities, net of reclassification adjustment.....	--	--	--	--	(18)	(18)
Total comprehensive income.....	--	--	--	--	--	11,357
Transfer from retained earnings to additional paid in capital.....	--	--	100	(100)	--	--
Cash dividends declared (\$.57 per share).....	--	--	--	(4,922)	--	(4,922)
Stock options exercised.....	153,459	1	1,572	--	--	1,573
Tax benefit from stock related compensation.....	--	--	386	--	--	386
Increase in stock grant earned.....	--	--	15	--	--	15
10% stock dividend.....	847,131	8	19,149	(19,157)	--	--
Additional shares issued.....	83,761	1	2,198	--	--	2,199
Balance at December 31, 1998.....	9,344,093	\$ 93	66,180	16,700	1,173	84,146
Comprehensive income:						
Net earnings.....	--	--	--	12,352	--	12,352
Unrealized loss on securities, net of reclassification adjustment.....	--	--	--	--	(6,604)	(6,604)
Total comprehensive income.....	--	--	--	--	--	5,748
Cash dividends declared (\$.64 per share).....	--	--	--	(6,076)	--	(6,076)
Stock options exercised.....	113,049	1	1,091	--	--	1,092
Tax benefit from stock related compensation.....	--	--	240	--	--	240
10% stock dividend.....	936,899	10	19,876	(19,905)	--	(19)
Fiscal year conforming adjustment.....	--	--	--	(75)	--	(75)
Balance at December 31, 1999.....	10,394,041	\$ 104	87,387	2,996	(5,431)	85,056
Comprehensive income:						
Net earnings.....	--	--	--	14,003	--	14,003
Unrealized gain on securities, net of reclassification adjustment.....	--	--	--	--	5,689	5,689
Total comprehensive income.....	--	--	--	--	--	19,692
Cash dividends declared (\$.59 per share).....	--	--	--	(6,752)	--	(6,752)
Stock options exercised.....	14,161	--	134	--	--	134
Tax benefit from stock related compensation.....	--	--	16	--	--	16
10% stock dividend.....	1,039,608	10	14,302	(14,334)	--	(22)
Dissenting Mountain West shareholders.....	(660)	--	(11)	--	--	(11)
Balance at December 31, 2000.....	11,447,150	\$ 114	101,828	(4,087)	258	98,113

	Year ended December 31,		
	2000	1999	1998
Disclosure of reclassification amount:			
Unrealized and realized holding gains (losses) arising during the year.....	\$ 9,347	(10,929)	(98)
Transfer from held to maturity.....	--	288	--
Tax (expense) benefit.....	(3,693)	4,021	39
Net after tax.....	5,654	(6,620)	(59)
Reclassification adjustment for gains included in net income.....	51	23	62
Tax expense.....	(16)	(7)	(21)
Net after tax.....	35	16	41
Net change in unrealized gain (loss) on available-for-sale securities.....	\$ 5,689	(6,604)	(18)

See accompanying notes to consolidated financial statements.

Glacier Bancorp, Inc.
Consolidated Statements of Cash Flows

(dollars in thousands)	Years ended December 31,		
	2000	1999	1998
OPERATING ACTIVITIES :			
Net earnings.....	\$ 14,003	12,352	11,375
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Mortgage loans held for sale originated or acquired.....	(103,284)	(143,313)	(207,622)
Proceeds from sales of mortgage loans held for sale.....	102,122	158,204	205,783
Proceeds from sales of commercial loans.....	23,314	10,796	8,756
Provision for loan losses.....	1,864	1,723	1,735
Depreciation of premises and equipment.....	2,315	1,883	1,596
Amortization of goodwill and deposit premium.....	542	305	165
Gain on sale of investments.....	(51)	(23)	(62)
Gain on sale of loans.....	(2,049)	(3,108)	(3,862)
Amortization of investment securities premiums and discounts, net.....	162	196	(196)
FHLB stock dividends.....	(1,022)	(1,038)	(973)
Gain on sale of branches.....	(198)	--	--
Deferred tax benefit.....	(139)	(207)	(99)
Net (increase) decrease in accrued interest receivable.....	(1,026)	(867)	15
Net increase in accrued interest payable.....	1,874	394	1,155
Net increase (decrease) in current income taxes.....	(75)	475	(632)
Net (increase) decrease in other assets.....	2	(320)	(77)
Net increase (decrease) in other liabilities and minority interest.....	(108)	(683)	1,439
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>38,246</u>	<u>36,769</u>	<u>18,496</u>
INVESTING ACTIVITIES:			
Proceeds from sales, maturities and prepayments of investment securities available-for-sale.....	34,042	38,279	38,142
Purchases of investment securities available-for-sale.....	(27,335)	(142,852)	(36,916)
Proceeds from maturities and prepayments of investment securities held-to-maturity.....	--	841	9,775
Purchases of investment securities held-to-maturity.....	--	12,057	(1,130)
Principal collected on installment and commercial loans.....	231,674	169,429	162,626
Installment and commercial loans originated or acquired.....	(334,904)	(290,174)	(236,378)
Principal collections on mortgage loans.....	128,714	98,397	95,945
Mortgage loans originated or acquired.....	(132,464)	(94,838)	(72,497)
Net purchase of FHLB and FRB stock.....	(475)	(1,788)	(879)
Net payments for sale of branches.....	(901)	--	--
Net addition of premises and equipment.....	(3,307)	(5,799)	(4,791)
Acquisition of minority interest.....	--	--	(236)
Acquisition of branch deposits.....	--	(4,739)	--
NET CASH USED IN INVESTING ACTIVITIES.....	<u>(104,956)</u>	<u>(221,187)</u>	<u>(46,339)</u>
FINANCING ACTIVITIES:			
Net increase in deposits.....	81,878	99,263	59,586
Net increase (decrease) in FHLB advances and other borrowed funds.....	(14,055)	87,971	(28,593)
Net increase (decrease) in securities sold under repurchase agreements.....	5,111	2,527	(4,434)
Cash dividends paid to stockholders.....	(6,904)	(5,923)	(4,237)
Proceeds from exercise of stock options and other stock issued.....	101	1,073	1,573
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	<u>66,131</u>	<u>184,911</u>	<u>23,895</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(579)	493	(3,948)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	52,365	51,872	55,252
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	<u>\$ 51,786</u>	<u>52,365</u>	<u>51,304</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest.....	\$ 35,483	27,241	24,315
Cash paid during the year for income taxes.....	7,794	6,247	7,348
NON-CASH INVESTING AND FINANCING ACTIVITY			
During the year ended December 31, 2000, the Company sold branches with net loans of \$3,660 and deposits of \$5,414.			
At December 31, 2000 and 1999, the Company had dividends payable of \$1,758 and \$1,910, respectively. Dividends payable are included in other liabilities.			

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 and Idaho 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 accounting principles generally accepted in the United States of America 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"), Mountain West Bank in Idaho, ("Mountain West"), 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, Mountain West 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 and Mountain West was acquired February 4, 2000. The pooling of interests method of accounting was used for the merger transaction with HUB, Big Sky, and Mountain West. 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.

1. Summary of Significant Accounting Policies . . . continued

Premiums and discounts on investment securities are amortized or accreted into income using a 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 January 1, 1999 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 interests 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 on 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

1. Summary of Significant Accounting Policies . . . continued

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.

(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. As of December 31, 2000 and 1999, the carrying value of goodwill was \$4,946,000 and \$5,289,000, respectively.

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. As of December 31, 2000 and 1999, the carrying value of core deposit intangibles was \$1,547,000 and \$1,746,000, respectively

(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.

1. Summary of Significant Accounting Policies . . . continued

(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, 2000 and 1999 there were no assets that were considered impaired.

(o) Mortgage Servicing Rights

The Company recognizes mortgage servicing rights when rights are acquired through purchase or through sale of financial assets. The mortgage servicing rights are assessed for impairment based on the fair value of the mortgage servicing rights. Fair value is determined using prices for similar assets with similar characteristics when available, based upon discounted cash flows using market-based assumptions. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms.

As of December 31, 2000 and 1999 the carrying value of servicing rights was approximately \$984,000 and \$1,007,000, respectively. Amortization expense of \$85,000, \$175,000, and \$145,000 was recognized in the years ended December 31, 2000, 1999, and 1998, respectively. The servicing rights are included in other assets on the balance sheet and are amortized over the life of the loan. There was no impairment of carrying value at December 31, 2000 or 1999. At December 31, 2000, the fair value of mortgage servicing rights was approximately \$1,358,000.

(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 1999 and 1998 financial statements to conform to the 2000 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, 2000 was \$4,560,000

3. Investment Securities, Available for Sale

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

December 31, 2000					
Dollars in thousands	Weighted Yield	Amortized Cost	Gross Unrealized		Estimated Fair Value
			Gains	Losses	
Available-for-Sale					
U.S. Government and Federal Agencies					
maturing within one year.....	5.05%	500	--	(3)	497
maturing one year through five years.....	6.33%	4,975	5	(25)	4,955
maturing five years through ten years.....	6.92%	3,050	24	(11)	3,063
maturing after ten years.....	7.20%	1,070	--	(12)	1,058
	6.55%	<u>9,595</u>	<u>29</u>	<u>(51)</u>	<u>9,573</u>
State and Local Governments and other issues:					
maturing within one year.....	5.47%	600	1	(19)	582
maturing one year through five years.....	5.17%	1,635	41	(1)	1,675
maturing five years through ten years.....	7.53%	4,047	34	(99)	3,982
maturing after ten years.....	5.50%	54,561	1,612	(570)	55,603
	5.63%	<u>60,843</u>	<u>1,688</u>	<u>(689)</u>	<u>61,842</u>
Mortgage-Backed Securities.....	6.79%	39,374	268	(157)	39,485
Real Estate Mortgage Investment Conduits.....	6.94%	101,635	396	(1,043)	100,988
Total Available for Sale Securities	6.52%	<u>211,447</u>	<u>2,381</u>	<u>(1,940)</u>	<u>211,888</u>

December 31, 1999					
Dollars in thousands	Weighted Yield	Amortized Cost	Gross Unrealized		Estimated Fair Value
			Gains	Losses	
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.....	6.37%	4,980	15	(105)	4,891
maturing five years though ten years.....	6.76%	4,546	--	(221)	4,325
maturing after ten years.....	5.20%	1,322	2	(13)	1,310
	6.33%	<u>12,846</u>	<u>20</u>	<u>(343)</u>	<u>12,523</u>
State and Local Governments and other issues:					
maturing within one year.....	6.50%	397	1	(49)	349
maturing one year through five years.....	4.92%	1,302	14	(5)	1,311
maturing five years through ten years.....	6.88%	4,120	25	(20)	4,125
maturing after ten years.....	5.21%	46,698	39	(2,985)	43,752
	5.34%	<u>52,517</u>	<u>79</u>	<u>(3,059)</u>	<u>49,537</u>
Mortgage-Backed Securities.....	6.96%	44,528	164	(1,310)	43,382
Real Estate Mortgage Investment Conduits.....	6.94%	108,374	126	(4,630)	103,870
Total Available for Sale Securities	6.52%	<u>218,265</u>	<u>389</u>	<u>(9,342)</u>	<u>209,312</u>

3. Investment Securities . . . continued

The book value of investment securities is as follows at:

(dollars in thousands)	December 31, 1998		
	Held-to-Maturity	Available-for-Sale	Totals
U.S. Government and Federal Agencies.....	\$ 4,876	16,447	21,323
State and Local Governments and Other Issues.....	4,184	40,037	44,221
Mortgage-Backed Securities.....	280	25,738	26,018
Real Estate Mortgage Investment Conduits.....	-	27,813	27,813
	<u>\$ 9,340</u>	<u>110,035</u>	<u>119,375</u>

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, 2000, 1999, and 1998 were approximately \$19,253,000, \$10,770,000 and \$10,476,000 respectively, resulting in gross gains of approximately \$127,000, \$72,000 and \$65,000 and gross losses of approximately \$76,000, \$49,000 and \$3,000, respectively.

At December 31, 2000, the Company had investment securities with carrying values of approximately \$73,616,000 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, 2000 and 1999, the minority interest share of the unrealized gain (loss) was approximately \$6,000 and (\$22,000), respectively.

4. Loans Receivable

The following is a summary of loans receivable at:

(dollars in thousands)	December 31,	
	2000	1999
Residential first mortgage	\$ 224,631	219,482
Loans held for sale	7,058	5,896
Commercial real estate.....	198,414	154,155
Commercial	142,519	125,462
Consumer	86,336	87,967
Home equity	83,539	66,566
	<u>742,497</u>	<u>659,528</u>
Net deferred loan fees, premiums and discounts.....	(1,137)	(598)
Allowance for loan losses.....	(7,799)	(6,722)
	<u>\$ 733,561</u>	<u>652,208</u>

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

(dollars in thousands)	Years ended December 31,		
	2000	1999	1998
Balance, beginning of period	\$ 6,722	5,668	4,654
Net charge offs.....	(787)	(669)	(721)
Provision	1,864	1,723	1,735
Balance, end of period	<u>\$ 7,799</u>	<u>6,722</u>	<u>5,668</u>

4. Loans Receivable . . . continued

The following is the allocation of allowance for loan losses and percentage of loans in each category at:

	December 31, 2000		December 31, 1999	
	Amount	Percent of of loans in category	Amount	Percent of of loans in category
(dollars in thousands)				
Residential first mortgage and loans held for sale. \$	1,227	31.2%	\$ 1,174	34.2%
Commercial real estate.....	2,300	26.7%	1,526	23.4%
Other commercial	2,586	19.2%	2,466	19.0%
Consumer loans	983	11.6%	1,087	13.3%
Home equity	703	11.3%	469	10.1%
	<u>\$ 7,799</u>	<u>100.0%</u>	<u>\$ 6,722</u>	<u>100.0%</u>

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.

Impaired loans for the years ended December 31, 2000, 1999, and 1998 were approximately \$1,154,000, \$1,463,000, and \$1,570,000, respectively, of which no impairment allowance was deemed necessary. The average recorded investment in impaired loans for the years ended December 31, 2000, 1999, and 1998 was approximately \$1,309,000, \$1,517,000, and \$1,095,000, respectively. Interest income that would have been recorded on impaired loans if such loans had been current for the entire period would have been approximately \$101,000, \$132,000, and \$103,000 for the years ended December 31, 2000, 1999, and 1998, respectively. Interest income recognized on impaired loans for the years ended December 31, 2000, 1999, and 1998 was not significant.

The weighted average interest rate on loans was 8.91% and 8.53% at December 31, 2000 and 1999, respectively.

At December 31, 2000, 1999 and 1998 loans sold and serviced for others were \$146,534,000, \$159,451,000, and \$169,378,000, 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 extend 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,	
	2000	1999
Loans and loans in process..... \$	111,141	74,315
Unused consumer lines of credit.....	27,270	26,464
Letters of credit.....	6,342	6,918
	<u>\$ 144,753</u>	<u>107,697</u>

4. Loans Receivable . . . continued

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

	December 31,	
	<u>2000</u>	<u>1999</u>
Investment securities	\$ 1,953	1,896
Loans receivable	4,684	3,715
	<u>\$ 6,637</u>	<u>5,611</u>

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, 2000 was approximately \$13,372,000. During 2000, new loans to such related parties were approximately \$7,292,000 and repayments were approximately \$4,665,000.

5. Premises and Equipment

Premises and equipment consist of the following at:

<u>(dollars in thousands)</u>	December 31,	
	<u>2000</u>	<u>1999</u>
Land	\$ 3,968	4,118
Office buildings and construction in progress...	18,401	17,435
Furniture, fixtures and equipment.....	13,590	12,291
Leasehold improvements.....	1,498	1,341
Accumulated depreciation	<u>(12,441)</u>	<u>(10,515)</u>
	<u>\$ 25,016</u>	<u>24,670</u>

6. Deposits

Deposits consist of the following at:

<u>(dollars in thousands)</u>	<u>December 31, 2000</u>			December 31, 1999	
	Weighted Average Rate	Amount	Percent	Amount	Percent
Demand accounts.....	0.0%	\$ 141,207	19.6%	\$ 126,927	19.7%
NOW accounts.....	1.1%	105,616	14.7%	102,917	16.0%
Savings accounts.....	1.8%	44,171	6.1%	47,312	7.3%
Money market demand accounts.....	4.5%	164,917	22.9%	156,692	24.3%
Certificate accounts:					
4.00% and lower		584	0.1%	1,715	0.3%
4.01% to 5.00%		14,742	2.0%	70,153	10.9%
5.01% to 6.00%.....		57,997	8.0%	110,490	17.2%
6.01% to 7.00%.....		183,896	25.6%	27,328	4.2%
7.01% to 8.00%.....		7,416	1.0%	412	0.1%
8.01% and higher.....		24	0.0%	160	0.0%
Total certificate accounts.....	5.8%	<u>264,659</u>	<u>36.7%</u>	<u>210,258</u>	<u>32.7%</u>
Total interest bearing deposits.....	4.2%	<u>579,363</u>	<u>80.4%</u>	<u>517,179</u>	<u>80.3%</u>
Total deposits.....	3.3%	<u>\$ 720,570</u>	<u>100.0%</u>	<u>644,106</u>	<u>100.0%</u>
Deposits with a balance in excess of \$100,000		<u>\$ 241,270</u>		<u>\$ 188,813</u>	

6. Deposits...continued

At December 31, 2000, scheduled maturities of certificates of deposit are as follows:

(dollars in thousands)	Years ending December 31,					
	Total	2001	2002	2003	2004	Thereafter
4.00% and lower	\$ 584	583	1	--	--	--
4.01% to 5.00%.....	14,742	11,548	1,572	415	918	289
5.01% to 6.00%.....	57,997	47,272	7,766	1,838	564	557
6.01% to 7.00%.....	183,896	173,416	6,115	2,833	749	783
7.01% to 8.00%.....	7,416	6,285	120	613	--	398
8.01% and higher.....	\$ 24	17	7	--	--	--
	264,659	239,121	15,581	5,699	2,231	2,027

Interest expense on deposits is summarized as follows:

(dollars in thousands)	Years ended December 31,		
	2000	1999	1998
NOW accounts	\$ 1,068	1,064	1,428
Money market demand accounts.....	7,447	5,304	4,458
Certificate accounts	13,353	9,283	8,723
Savings accounts	806	843	1,958
	\$ 22,674	16,494	16,567

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)	Maturing in years ending December 31,						Totals as of	Totals as of
	2001	2002	2003	2004	2005	2006-2011	December 31,	December 31,
4.00% to 5.00%.....	25	--	--	--	--	--	25	84,018
5.01% to 6.00%.....	4,430	3,204	3,014	2,612	2,604	6,116	21,980	112,726
6.01% to 7.00%.....	168,602	2,570	508	401	366	470	172,917	9,996
7.01% to 8.00%.....	451	351	302	248	173	144	1,669	1,710
8.01% to 8.15%.....	63	63	54	20	--	--	200	200
	\$ 173,571	6,188	3,878	3,281	3,143	6,730	196,791	208,650

These advances were collateralized by the Federal Home Loan Bank of Seattle stock held by the Company totaling approximately \$16,436,000 and \$15,134,000 at December 31, 2000 and 1999, respectively, and a blanket assignment of the Bank's unpledged qualifying real estate loans and investments. The total amount of advances available as of December 31, 2000 was approximately \$135,751,000.

The weighted average interest rate on these advances was 6.35% and 5.25% at December 31, 2000 and 1999, respectively.

The Federal Home Loan Bank of Seattle holds callable options which may be exercised after a predetermined time, and quarterly thereafter. At December 31, 2000 advances totaling \$18,000,000 with contractual maturity of 2008 and initial call dates of 2001 on \$3,000,000 and 2003 on \$15,000,000 were outstanding.

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)	Repurchase	Weighted	Book	Market
December 31, 2000	amount	average	value of	value of
Securities sold under agreements to repurchase within:		rate	underlying	underlying
			assets	assets
1-30 days	\$ 12,650	4.32%	\$ 17,995	18,139
31-90 days	9,100	6.48%	12,945	13,049
Greater than 90 days.....	3,127	6.57%	4,448	4,484
	<u>\$ 24,877</u>	5.39%	<u>\$ 35,388</u>	<u>35,672</u>
December 31, 1999:				
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
	<u>\$ 19,766</u>	4.51%	<u>\$ 26,358</u>	<u>27,161</u>

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, 2000 and 1999 securities sold under agreements to repurchase averaged approximately \$19,052,000 and \$28,605,000, respectively, and the maximum outstanding at any month end during the year was approximately \$24,877,000 and \$53,791,000, respectively

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 \$12,850,000 at federal funds rates minus 25 basis points. At December 31, 2000 and 1999 the outstanding balance under this program was approximately \$4,302,000 and \$5,778,000. The borrowings are secured with investment securities with a par value of approximately \$20,363,000 and a market value of approximately \$20,487,000. For the year ended December 31, 2000, the maximum outstanding at any month end was approximately \$9,426,000 and the average balance was approximately \$3,236,000.

Other borrowed funds also includes federal funds purchased of \$0 and \$720,000 at December 31, 2000 and 1999, 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, 2000 and 1999 was \$350,000. The debentures are 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 \$10.60 of principal value, or an equivalent of 33,025 shares.

10. Regulatory Capital

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, 2000:

	Actual		Minimum capital requirement		Well capitalized requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital to risk weighted assets						
Consolidated.....	91,263	12.31%	29,659	4.00%	44,489	6.00%
Glacier.....	37,328	13.45%	11,099	4.00%	16,648	6.00%
Whitefish.....	4,974	11.97%	1,663	4.00%	2,494	6.00%
Eureka.....	3,350	16.42%	816	4.00%	1,224	6.00%
First Security.....	18,099	9.98%	7,254	4.00%	10,881	6.00%
Big Sky	6,223	9.68%	2,572	4.00%	3,858	6.00%
Valley	7,598	12.41%	2,448	4.00%	3,673	6.00%
Mountain West.....	9,797	11.12%	3,523	4.00%	5,285	6.00%
Tier 2 (total) capital to risk weighted assets						
Consolidated.....	99,062	13.36%	59,319	8.00%	74,149	10.00%
Glacier.....	39,897	14.38%	22,198	8.00%	27,747	10.00%
Whitefish.....	5,477	13.18%	3,325	8.00%	4,157	10.00%
Eureka.....	3,606	17.67%	1,632	8.00%	2,041	10.00%
First Security.....	20,229	11.15%	14,508	8.00%	18,135	10.00%
Big Sky	6,951	10.81%	5,144	8.00%	6,430	10.00%
Valley	8,293	13.55%	4,897	8.00%	6,121	10.00%
Mountain West.....	10,737	12.19%	7,046	8.00%	8,808	10.00%
Leverage capital to total average assets						
Consolidated.....	91,263	8.72%	41,853	4.00%	52,317	5.00%
Glacier.....	37,328	8.08%	18,471	4.00%	23,088	5.00%
Whitefish.....	4,974	8.90%	2,235	4.00%	2,794	5.00%
Eureka.....	3,350	10.84%	1,236	4.00%	1,545	5.00%
First Security.....	18,099	8.64%	8,376	4.00%	10,470	5.00%
Big Sky	6,223	8.28%	3,005	4.00%	3,756	5.00%
Valley	7,598	8.66%	3,509	4.00%	4,387	5.00%
Mountain West.....	9,797	8.11%	4,832	4.00%	6,040	5.00%

10. Regulatory Capital. . . continued

The following table illustrates the Federal Reserve Board's adequacy guidelines and the Company's compliance with those guidelines as of December 31, 1999:

	Actual		Minimum capital requirement		Well capitalized requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital to risk weighted assets						
Consolidated.....	83,678	13.23%	25,290	4.00%	37,935	6.00%
Glacier.....	33,645	13.58%	9,913	4.00%	14,870	6.00%
Whitefish.....	4,934	13.49%	1,462	4.00%	2,194	6.00%
Eureka.....	3,339	19.45%	687	4.00%	1,030	6.00%
First Security.....	16,456	9.73%	6,764	4.00%	10,146	6.00%
Big Sky	5,716	11.35%	2,015	4.00%	3,023	6.00%
Valley	7,376	12.59%	2,344	4.00%	3,516	6.00%
Mountain West.....	6,542	10.40%	2,515	4.00%	3,773	6.00%
Tier 2 (total) capital to risk weighted assets						
Consolidated.....	90,400	14.30%	50,581	8.00%	63,226	10.00%
Glacier.....	35,898	14.48%	19,827	8.00%	24,784	10.00%
Whitefish.....	5,313	14.53%	2,925	8.00%	3,656	10.00%
Eureka.....	3,555	20.70%	1,374	8.00%	1,717	10.00%
First Security.....	18,549	10.97%	13,527	8.00%	16,909	10.00%
Big Sky	6,335	12.58%	4,030	8.00%	5,038	10.00%
Valley	7,953	13.57%	4,688	8.00%	5,860	10.00%
Mountain West.....	7,196	11.44%	5,031	8.00%	6,289	10.00%
Leverage capital to total average assets						
Consolidated.....	83,678	9.59%	34,893	4.00%	43,616	5.00%
Glacier.....	33,645	7.58%	17,758	4.00%	22,198	5.00%
Whitefish.....	4,934	9.86%	2,001	4.00%	2,501	5.00%
Eureka.....	3,339	12.03%	1,110	4.00%	1,388	5.00%
First Security.....	16,456	8.62%	7,640	4.00%	9,550	5.00%
Big Sky	5,716	9.15%	2,498	4.00%	3,123	5.00%
Valley	7,376	8.95%	3,295	4.00%	4,119	5.00%
Mountain West.....	6,542	7.60%	3,443	4.00%	4,304	5.00%

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, 2000, 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, 2000.

11. Federal and State Income Taxes

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

(dollars in thousands)	Years ended December 31,		
	2000	1999	1998
Current:			
Federal.....	\$ 6,259	5,675	5,546
State.....	1,460	1,254	1,227
Total current tax expense	<u>7,719</u>	<u>6,929</u>	<u>6,773</u>
Deferred:			
Federal.....	(74)	(164)	(127)
State.....	(65)	(43)	28
Total deferred tax benefit	<u>(139)</u>	<u>(207)</u>	<u>(99)</u>
Total income tax expense	<u>\$ 7,580</u>	<u>6,722</u>	<u>6,674</u>

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

	Years ended December 31,		
	2000	1999	1998
Federal statutory rate.....	35.0%	35.0%	35.0%
State taxes, net of federal income tax benefit	4.2%	4.1%	4.5%
Other, net.....	-4.1%	-3.9%	-2.5%
	<u>35.1%</u>	<u>35.2%</u>	<u>37.0%</u>

Tax exempt interest for the years ended December 31, 2000, 1999 and 1998 was approximately \$2,816,000, \$2,301,000, and \$1,604,000, respectively.

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

(dollars in thousands)	December 31,	
	2000	1999
Deferred tax assets:		
Allowance for losses on loans.....	\$ 3,270	2,826
Available-for-sale securities fair value adjustment.....	--	3,501
Other.....	440	540
Total gross deferred tax assets	<u>3,710</u>	<u>6,867</u>
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends.....	(2,678)	(2,247)
Fixed assets, due to differences in depreciation.....	(823)	(665)
Tax bad debt reserve in excess of base-year reserve.....	(200)	(418)
Available-for-sale securities fair value adjustment.....	(175)	--
Basis difference from acquisitions.....	(181)	(186)
Other.....	(231)	(392)
Total gross deferred tax liabilities	<u>(4,288)</u>	<u>(3,908)</u>
Net deferred tax asset (liability)	<u>\$ (578)</u>	<u>2,959</u>

11. Federal and State Income Taxes . . . continued

There is no valuation allowance at December 31, 2000 and 1999 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.

Retained earnings at December 31, 2000 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, 2000, 1999, and 1998 was approximately \$1,058,000, \$791,000 and \$552,000 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, 2000, 1999 and 1998 was approximately \$331,000, \$288,000, and \$256,000, 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, 2000, 1999 and 1998 was approximately \$18,000, \$10,000, and \$26,000, respectively.

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 \$34,000, \$43,000, \$52,000, for the years ending December 31, 2000, 1999, and 1998, 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 2000, 1999, and 1998 were approximately (\$24,000), (\$33,000), and \$12,000, 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,		
	2000	1999	1998
Net earnings available to common stockholders, basic.....	\$ 14,003,000	12,352,000	11,375,000
After tax effect of interest on convertible subordinated debentures....	16,000	16,000	16,000
Net earnings available to common stockholders, diluted.....	\$ 14,019,000	12,368,000	11,391,000
Average outstanding shares - basic.....	11,440,391	11,392,861	11,146,948
Add: Dilutive stock options.....	70,730	174,183	219,551
Convertible subordinated debentures....	33,025	33,025	33,025
Average outstanding shares - diluted.....	11,544,146	11,600,069	11,399,524
Basic earnings per share.....	\$ 1.22	1.08	1.02
Diluted earnings per share.....	\$ 1.21	1.07	1.00

There were approximately 510,000 and 351,000 option shares in 2000 and 1999, respectively, that were not included because the option exercise price exceeded the market value. All option shares were included as dilutive stock options in 1998.

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 plans 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 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

14. Stock Option Plans . . . continued

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, 2000, total shares available for option grants to employees and directors are 736,634. Changes in shares granted for stock options for the years ended December 31, 2000, 1999, and 1998, are summarized as follows:

	Options outstanding		Options exercisable	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Balance, December 31, 1997.....	534,759	\$ 12.33	234,338	\$ 10.32
Canceled.....	(16,738)	(13.51)	(8,388)	(10.97)
Granted.....	170,957	22.10	31,860	13.75
Became exercisable.....			132,885	11.31
Three for two stock split.....	58,939		40,985	
Exercised.....	(153,459)	(10.26)	(153,459)	(10.26)
Balance, December 31, 1998.....	594,458	\$ 14.40	278,221	10.36
Canceled.....	(43,439)	(18.57)	(2,631)	(11.74)
Granted.....	217,573	22.27	10,620	16.95
Became exercisable.....			197,139	16.01
Stock dividend.....	55,913		32,042	
Exercised.....	(113,049)	(11.58)	(113,049)	(11.58)
Balance, December 31, 1999.....	711,456	\$ 15.85	402,342	12.41
Canceled.....	(12,687)	(15.42)	(28,889)	(16.77)
Granted.....	145,818	15.27		
Became exercisable.....			161,852	17.81
Stock dividend.....	54,887		60,210	
Exercised.....	(14,161)	(9.47)	(14,161)	(9.47)
Balance, December 31, 2000.....	885,313	\$ 14.34	581,354	13.13

The range of exercise prices on options outstanding at December 31, 2000 is as follows:

Price range	Shares	Weighted average exercise price	Weighted average life of options	Options exercisable	
				Shares	Weighted average exercise price
\$5.65 - \$8.12	44,017	\$ 6.22	3.8 years	44,017	\$ 6.22
\$8.75 - \$9.57	131,295	9.11	3.1 years	131,295	9.11
\$11.21 - \$13.09	203,302	11.92	2.1 years	202,302	11.92
\$13.63 - \$16.95	150,551	13.86	5.8 years	23,584	14.74
\$18.28 - \$21.82	356,148	18.86	3.2 years	180,156	18.89
	885,313	14.34	3.8 years	581,354	13.13

14. Stock Option Plans . . . continued

The options exercised during the year ended December 31, 2000 were at prices from \$7.00 to \$13.24.

The per share weighted-average fair value of stock options granted during 2000, 1999 and 1998 was \$2.47, \$5.04, and \$4.76, respectively, on the date of grant using the Black Scholes option-pricing model with the following assumptions: 2000 – expected dividend yield of 4.6%, risk-free interest rate of 4.98%, volatility ratio of 25%, and expected life of 4.8 years: 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 4.6%, 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,		
		<u>2000</u>	<u>1999</u>	<u>1998</u>
Net earnings (in thousands):	As reported \$	14,003	12,352	11,375
	Pro forma	13,379	11,463	10,724
Basic earnings per share:	As reported	1.22	1.08	1.02
	Pro forma	1.17	1.00	0.96
Diluted earnings per share:	As reported	1.21	1.07	1.00
	Pro forma	1.16	0.99	0.94

15. Parent Company Information (Condensed)

The following condensed financial information is the unconsolidated (parent company only) information for Glacier Bancorp, Inc.:

Statements of Financial Condition (dollars in thousands)	December 31,	
	2000	1999
Assets:		
Cash	\$ 1,674	2,561
Interest bearing cash deposits	586	16
Cash and cash equivalents	2,260	2,577
Investment securities, available-for-sale.....	1,075	1,755
Other assets	3,022	2,640
Goodwill, net.....	2,150	2,376
Investment in subsidiaries.....	92,235	78,220
	\$ 100,742	87,568
Liabilities and Stockholders' Equity:		
Dividends payable	\$ 1,758	1,910
Other liabilities.....	871	602
Total liabilities.....	2,629	2,512
Common stock	114	104
Paid-in capital.....	101,828	87,387
Retained earnings (accumulated deficit).....	(4,087)	2,996
Accumulated other comprehensive income (loss)	258	(5,431)
Total stockholders' equity.....	98,113	85,056
	\$ 100,742	87,568

Statements of Operations (dollars in thousands)	Years ended December 31,		
	2000	1999	1998
Revenues			
Dividends from subsidiaries.....	\$ 8,650	8,518	5,761
Other income	163	161	168
Intercompany charges for services.....	2,469	1,617	1,971
Total revenues.....	11,282	10,296	7,900
Expenses			
Employee compensation and benefits.....	1,852	1,519	1,880
Goodwill amortization.....	243	243	165
Other operating expenses.....	1,635	1,027	1,239
Total expenses.....	3,730	2,789	3,284
Earnings before income tax benefit and equity in undistributed earnings of subsidiaries.....	7,552	7,507	4,616
Income tax benefit.....	(359)	(328)	(198)
Income before equity in undistributed earnings of subsidiaries.....	7,911	7,835	4,814
Equity in undistributed earnings of subsidiaries.....	6,092	4,517	6,561
Net earnings.....	\$ 14,003	12,352	11,375

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

Statements of Cash Flows (dollars in thousands)	Years ended December 31,		
	2000	1999	1998
Operating Activities			
Net earnings.....	\$ 14,003	12,352	11,375
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Goodwill amortization.....	243	242	165
Gain on sale of investments available-for-sale.....	(11)	--	(8)
Equity in undistributed earnings of subsidiaries.....	(6,092)	(4,517)	(6,561)
Net increase in other assets and other liabilities.....	321	375	1,179
Net cash provided by operating activities.....	<u>8,464</u>	<u>8,452</u>	<u>6,150</u>
Investing activities			
Purchases of investment securities available-for-sale.....	--	(103)	(198)
Proceeds from sales, maturities and prepayments of securities available-for-sale.....	702	3	59
Proceeds from maturities of securities held-to-maturity.....	--	--	3
Equity contribution to subsidiary.....	(2,200)	(2,500)	--
Net addition of premises and equipment.....	(480)	(1,510)	(1,399)
Acquisition of minority interest.....	--	--	(236)
Net cash used by investing activities.....	<u>(1,978)</u>	<u>(4,110)</u>	<u>(1,771)</u>
Financing activities			
Proceeds from exercise of stock options and other stock issued.....	101	1,073	1,573
Principal reductions on notes payable.....	--	--	(216)
Cash dividends paid to stockholders.....	(6,904)	(5,923)	(4,327)
Net cash used by financing activities.....	<u>(6,803)</u>	<u>(4,850)</u>	<u>(2,970)</u>
Net increase (decrease) in cash and cash equivalents.....	(317)	(508)	1,409
Cash and cash equivalents at beginning of year.....	2,577	3,085	1,676
Cash and cash equivalents at end of year.....	<u>\$ 2,260</u>	<u>2,577</u>	<u>3,085</u>

16. Unaudited Quarterly Financial Data

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

	Quarters Ended			
	March 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000
Interest income	\$ 18,246	19,293	20,400	20,898
Interest expense.....	8,345	9,134	9,881	9,997
Net interest income.....	9,901	10,159	10,519	10,901
Provision for loan loss.....	487	505	491	381
Net income before income taxes.....	4,979	4,983	6,137	5,485
Net earnings	3,228	3,192	3,853	3,730
Basic earnings per share [1].....	0.28	0.28	0.34	0.32
Diluted earnings per share [1].....	0.28	0.28	0.33	0.32
Dividends per share [1].....	0.14	0.15	0.15	0.15
Market range high-low [1]	\$14.82-\$11.25	\$14.44-\$11.00	\$13.38-\$11.00	\$13.31-\$11.00

16. Unaudited Quarterly Financial Data . . . continued

	Quarters Ended			
	March 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999
Interest income	\$ 14,398	15,476	16,849	17,996
Interest expense.....	<u>5,973</u>	<u>6,470</u>	<u>7,260</u>	<u>7,932</u>
Net interest income.....	8,425	9,006	9,589	10,064
Provision for loan loss.....	359	410	478	476
Net income before income taxes.....	4,540	4,742	5,099	4,693
Net earnings	2,969	3,088	3,266	3,029
Basic earnings per share [1].....	0.26	0.27	0.28	0.26
Diluted earnings per share [1].....	0.25	0.26	0.28	0.26
Dividends per share [1].....	0.13	0.14	0.14	0.18 [2]
Market range high-low [1]	\$19.84-\$15.50	\$22.17-\$15.70	\$21.71-\$13.87	\$17.05-\$13.53

[1] Per share amounts adjusted to reflect effect of 10% stock dividend

[2] Special dividend was paid at \$.05 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:

(dollars in thousands)	2000		1999	
	Amount	Fair Value	Amount	Fair Value
Financial Assets:				
Cash	\$ 41,456	41,456	50,590	50,590
Federal funds sold.....	--	--	64	64
Interest bearing cash deposits	10,330	10,330	1,711	1,711
Investment securities	71,415	71,415	62,060	62,060
Mortgage-backed securities	140,473	140,473	147,252	147,252
Loans.....	733,561	728,511	652,208	641,499
FHLB and Federal Reserve Bank stock	18,098	18,098	16,601	16,601
Financial Liabilities:				
Deposits	\$ 720,570	721,217	644,106	646,778
Advances from the FHLB of Seattle.....	196,791	198,195	208,650	204,681
Repurchase agreements and other borrowed funds	29,529	29,529	26,614	26,614

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.

17. Fair Value of Financial Instruments...continued

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 leases certain land, premises and equipment from third parties under operating leases. Total rent expense for the year ended December 31, 2000, 1999, and 1998 was approximately \$462,000, \$352,000, and \$306,000, respectively. The total future minimum rental commitments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2000 are as follows: The Company is a defendant in legal proceedings arising in the normal course of business. In the opinion of

<u>Years ended December 31,</u>	<u>Amount</u>
2001	\$ 529
2002	427
2003	257
2004	188
2005	124
Thereafter	<u>445</u>
Total minimum future rental expense	\$ <u>1,970</u>

management, the disposition of pending litigation will not have a material effect on the Company's consolidated financial position, results of operations or liquidity.

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

Also on August 31, 1998, the Company issued 83,761 shares of common stock valued at \$2,199 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

19. Business Combinations...continued

to the combination have been restated to include the accounts and results of operations of Big Sky Western Bank.

On February 4, 2000, the Company issued 844,257 shares of common stock in exchange for all of the outstanding stock of Mountain West Bank. This business combination has been accounted for as a pooling-of-interests combination, and accordingly, the consolidated financial statements for the periods prior to the combination have been restated to include the accounts and results of operations of Mountain West Bank.

Prior to the combination Mountain West Bank's fiscal year ended on March 31. In recording the pooling-of-interests combination, Mountain West Bank's financial statements for the twelve months ended

December 31, 1999, were combined with the Company's financial statements for the same period. For the December 31, 1998 financial statements Mountain West Bank's March 31, 1999 financial statements were combined with the Company's December 31, 1998 financial statements. An adjustment of \$75,000 has been made to stockholders' equity as of December 31, 1999, to eliminate the effect of including Mountain West Bank's results of operation for the three months ended March 31, 1999, in both the years ended December 31, 1999 and 1998. 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):

	Years ended December 31	
	1999	1998
Revenue of:		
Glacier Bancorp, Inc.	\$ 69,985	65,680
Mountain West Bank.....	<u>7,543</u>	<u>6,744</u>
Combined.....	<u>\$ 77,528</u>	<u>72,424</u>
Net earnings of:		
Glacier Bancorp, Inc.	\$ 12,179	10,915
Mountain West Bank.....	<u>173</u>	<u>460</u>
Combined.....	<u>\$ 12,352</u>	<u>11,375</u>

20. Branch Acquisitions

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 and accordingly, the consolidated statement of operations for the year ended December 31, 1999 includes the results of these branch operations from the date of 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. Operating Segment Information

FASB Statement 131, Financial Reporting for Segments of a Business Enterprise, 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

21. Operating Segment Information . . . continued

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.

The following is a summary of selected operating segment information for the years ended and as of December 31, 2000, 1999, and 1998 (in thousands):

Operating Segments information (Dollars in thousands)									
2000	Glacier	Whitefish	Eureka	First Security	Valley	Big Sky	Mountain West	Other	Consolidated
Net interest income	\$ 16,361	2,406	1,335	9,324	4,171	2,721	5,037	125	41,480
Provision for loan losses	460	225	24	360	205	180	410	0	1,864
Net interest income after provision for loan losses	15,901	2,181	1,311	8,964	3,966	2,541	4,627	125	39,616
Noninterest income	5,913	704	332	2,000	1,411	750	2,206	(22)	13,294
Merger expense and amortization of goodwill and core deposit intangibles	317	0	0	0	0	0	0	242	559
Other noninterest expense	11,440	1,522	933	4,771	3,498	2,527	5,153	863	30,707
Income before income taxes and minority interest	10,057	1,363	710	6,193	1,879	764	1,680	(1,002)	21,644
Minority interest								61	61
Income tax expense (benefit)	3,456	423	199	2,251	657	258	657	(321)	7,580
Net income	\$ 6,601	940	511	3,942	1,222	506	1,023	(742)	14,003
Assets	\$ 469,351	56,563	30,562	214,231	87,791	77,111	126,518	(5,415)	1,056,712
Net loans	282,467	40,146	20,291	180,041	62,645	57,050	90,921	0	733,561
Deposits	288,556	41,475	19,285	164,168	76,508	49,616	86,632	(5,670)	720,570
Stockholders' equity	42,049	5,060	3,402	18,027	7,649	6,090	9,780	6,056	98,113
1999									
Net interest income	\$ 15,266	2,044	1,290	8,804	3,614	2,077	3,755	234	37,084
Provision for loan losses	470	66	24	600	155	191	217	--	1,723
Net interest income after provision for loan losses	14,796	1,978	1,266	8,204	3,459	1,886	3,538	234	35,361
Noninterest income	5,539	675	313	2,260	1,494	881	1,745	(98)	12,809
Merger expense and amortization of goodwill and core deposit intangibles	78	0	0	0	0	0	78	361	517
Other noninterest expense	10,750	1,502	986	4,567	2,977	2,096	4,941	709	28,528
Income before income taxes and minority interest	9,507	1,151	593	5,897	1,976	671	264	(934)	19,125
Minority interest								51	51
Income tax expense (benefit)	3,303	348	191	2,132	731	231	91	(305)	6,722
Net income	\$ 6,204	803	402	3,765	1,245	440	173	(680)	12,352
Assets	\$ 460,257	52,203	28,879	193,548	82,587	66,255	89,884	388	974,001
Net loans	272,060	35,485	18,178	161,781	58,924	43,850	61,930	--	652,208
Deposits	276,880	34,261	18,514	143,645	65,095	41,034	67,824	(3,147)	644,106
Stockholders' equity	36,040	4,605	3,137	15,640	7,073	5,281	6,243	7,037	85,056

21. Operating Segment Information . . . continued

Operating Segments information (Dollars in thousands)									
1998	Glacier	Whitefish	Eureka	First Security	Valley	Big Sky	Mountain West	Other	Consolidated
Net interest income.	\$ 14,572	1,820	1,247	7,784	3,312	1,251	3,187	185	33,358
Provision for loan losses	670	78	12	645	85	42	203	--	1,735
Net interest income after provision for loan losses	13,902	1,742	1,235	7,139	3,227	1,209	2,984	185	31,623
Noninterest income	5,723	686	372	2,801	1,553	743	1,637	81	13,596
Merger expense and amortization of goodwill and core deposit intangibles	--	--	--	--	--	--	--	931	931
Other noninterest expense	10,523	1,347	971	4,151	3,010	1,680	3,885	527	26,094
Income before income taxes and minority interest	9,102	1,081	636	5,789	1,770	272	736	(1,192)	18,194
Minority interest								145	145
Income tax expense (benefit)	3,238	343	217	2,138	659	103	276	(300)	6,674
Net income	\$ 5,864	738	419	3,651	1,111	169	460	(1,037)	11,375
Assets	\$ 370,686	42,643	24,471	164,546	69,924	39,376	80,867	(5,711)	786,802
Net loans	272,399	22,022	16,322	134,646	48,860	23,959	52,980	--	571,188
Deposits	201,211	34,179	17,797	139,348	57,807	31,385	70,659	(5,883)	546,503
Stockholders' equity	39,058	4,642	3,309	14,668	6,628	2,873	6,336	6,632	84,146

22. Acquisitions

On September 20, 2000, the Company entered into a merger agreement to acquire WesterFed Financial Corporation (WesterFed). The merger was closed on February 28, 2001. Under the terms of the agreement, the Company issued 4,530,462 shares and \$37,274,000 cash for total consideration of \$96,669,000, based on a \$13.11 per share price. The merger is being accounted for using the purchase method of accounting. Accordingly, the assets and liabilities of WesterFed are recorded by the Company at their respective fair values at the time of the completion of the merger. The excess of the Company's purchase price over the net fair value of the assets acquired and liabilities assumed, including identifiable intangible assets, is recorded as goodwill and will be amortized over a useful life of 20 years.

On September 14, 2000 the Company announced the acquisition of seven branches of Wells Fargo & Company and First Security Corporation subsidiary banks located in Idaho and Utah. The transaction was completed on March 15, 2001. In total, as of the closing, the branches had approximately \$187,000,000 in deposits and \$38,000,000 in loans. The purchase price of approximately \$18,500,000 was based on the total deposits, cash-equivalent assets and loans at the branches immediately prior to closing. The locations became branch offices of Mountain West Bank of Coeur d'Alene.

23. Subsequent Events

The Company formed Glacier Capital Trust I (Glacier Trust) as a financing subsidiary on December 18, 2000. On January 25, 2001, Glacier Trust offered 1,400,000 preferred securities at \$25 per preferred securities. The purchase of the securities entitles the shareholder to receive cumulative cash distributions at an annual interest rate of 9.40% from payments on the junior subordinated debentures of Glacier Bancorp, Inc. The subordinated debentures will mature and the preferred securities must be redeemed by February 1, 2031. In exchange for the Company's capital contribution, the Company will own all of the outstanding common securities of the trust.



P.O. Box 7108
Billings, MT 59103

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, 2000 and 1999 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, 2000. 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 did not audit the 1998 financial statements of Mountain West Bank, acquired by Glacier Bancorp, Inc. on February 4, 2000 in a pooling of interests, which financial statements reflect net interest income and net income constituting 9.6% and 4.0%, respectively, of the related 1998 consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mountain West Bank, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, based on our audits and the report of the other auditors, 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, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Billings, Montana
February 2, 2001



PricewaterhouseCoopers LLC
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Telephone (509) 455 9300
Facsimile (509) 625 1346

Report of Independent Accountants

The Board of Directors and Stockholders
Mountain West Bank

In our opinion, the statements of income, comprehensive income, changes in stockholders' equity and of cash flows for the year ended March 31, 1999 of Mountain West Bank (not presented separately herein) present fairly, in all material respects, the results of operations and cash flows of Mountain West Bank for the year ended March 31, 1999, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. We have not audited the financial statements of Mountain West Bank for any period subsequent to March 31, 1999.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

Spokane, Washington
May 19, 1999

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

The Company is a Delaware corporation and at December 31, 2000 had six commercial banks located in Montana 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. Mountain West Bank of Coeur d'Alene, Idaho is its seventh banking subsidiary. The following discussion and analysis includes the effect of the pooling-of-interests merger with Big Sky Western Bank and Mountain West Bank. Prior period information has been restated to include amounts from the Mountain West and Big Sky mergers. The Company reported earnings of \$14,003,000 for the year ended December 31, 2000, or \$1.22 basic earnings per share, and \$1.21 diluted earnings per share, compared to \$12,352,000, or \$1.08 basic earnings per share and \$1.07 diluted earnings per share, for the year ended December 31, 1999, and \$11,375,000, or \$1.02 basic and \$1.00 diluted earnings per share for the year ended December 31, 1998. 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 seven 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 2000, all seven 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, 2000 of \$98,113,000, or 9.3% of assets, which compares with \$85,056,000, or 8.7% of assets at December 31, 1999. Earnings retention and an increase in accumulated other comprehensive income of 15.4%, has exceeded the 8.5% growth in total assets. 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

The following table summarizes the Company's major asset and liability components as a percentage of total assets at December 31, 2000, 1999, and 1998.

	December 31,		
	2000	1999	1998
Assets:			
Cash, and Cash Equivalents, Investment Securities, FHLB and Federal Reserve Stock.....	26.7%	28.6%	23.5%
Real Estate Loans and Loans Held for Sale.....	21.8%	23.1%	30.3%
Commercial Loans.....	31.8%	28.7%	27.4%
Consumer Loans.....	15.9%	15.9%	15.6%
Other Assets.....	3.8%	3.7%	3.2%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Liabilities and Stockholder's Equity:			
Deposit Accounts.....	68.2%	66.1%	69.5%
FHLB Advances.....	18.6%	21.4%	16.0%
Other Borrowings and Repurchase Agreements.....	2.8%	2.7%	2.4%
Other Liabilities.....	1.1%	1.1%	1.4%
Stockholders' Equity.....	9.3%	8.7%	10.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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 power 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, 2000, 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 19.01% which compares to a negative 24.22% at December 31, 1999 and a positive 2.51% at December 31, 1998. 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.

(dollars in thousands)	Projected maturity or repricing				
	0-6 Months	6-12 Months	1 - 5 years	More than 5 years	Total
Assets:					
Interest bearing deposits.....	\$ 10,330	-	-	-	10,330
Investment securities.....	740	339	6,630	63,706	71,415
Mortgage-backed securities.....	8,626	10,194	51,204	70,449	140,473
Floating rate loans.....	191,600	27,155	113,303	2,365	334,423
Fixed rate loans.....	75,182	55,849	187,698	80,409	399,138
Other earning assets.....	16,435	-	-	1,663	18,098
Total interest bearing assets.....	\$ 302,913	93,537	358,835	218,592	973,877
Liabilities:					
Interest-bearing deposits.....	354,617	49,209	25,824	149,713	579,363
FHLB advances.....	104,001	69,570	16,490	6,730	196,791
Other borrowed funds and repurchase agreements.....	29,382	147	-	-	29,529
Total interest bearing liabilities.....	\$ 488,000	118,926	42,314	156,443	805,683
Repricing gap.....	\$ (185,087)	(25,389)	316,521	62,149	168,194
Cumulative repricing gap.....	(185,087)	(210,476)	106,045	168,194	
Cumulative gap as a % of total assets...	-19.01%	-21.61%	10.89%	17.27%	
Gap Earnings Sensitivity (1).....	\$	(1,284)			
Gap Earnings Sensitivity Ratio (2).....	\$	-9.17%			

(1) Gap Earnings Sensitivity is the estimated effect on income, after taxes of 39%, of a 1% increase or decrease in interest rates (1% of (-\$210,476 + \$82,086))

(2) Gap Earnings Sensitivity Ratio is Gap Earnings Sensitivity divided by the estimated yearly earnings of \$14,003. 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. Interest-bearing checking and regular savings are included in the more than 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 2000 was slightly lower than the prior year. The net interest margin decreased slightly in 2000 from 4.67% to 4.48%, primarily the result of an increase in rates on deposits and borrowings. Increased asset levels, and increased interest-free funding resulted in significantly higher net interest income.

	December 31, [1]		
	2000	1999	1998
Combined weighted average yield on loans and investments [2]....	8.51%	7.97%	8.21%
Combined weighted average rate paid on savings deposits and borrowings	4.89%	4.24%	4.47%
Net interest spread.....	3.62%	3.73%	3.74%
Net interest margin [3].....	4.48%	4.67%	4.80%

(1) Weighted averages are computed without the effect of compounding daily interest.

(2) Includes dividends received on capital stock of the FHLB 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, 2000 Compared to December 31, 1999

Financial Condition

Total assets increased \$82,711,000, or 8.5% over the December 31, 1999 asset level. Total loans outstanding increased 12.6%, or \$82,969,000 with the largest increase occurring in the commercial classification which increased \$61,316,000, or 21.9%. Consumer loans increased \$15,342,000, or 9.9%. Residential real estate loans and loans held for sale increased \$6,311,000 or 2.8%. Investment securities increased \$2,576,000, or 1.2%.

Total liabilities increased \$69,654,000, or 7.8%, with non-interest bearing deposits up \$14,280,000, or 11.3%, and interest bearing deposits up \$62,184,000, or 12.0%. Federal Home Loan Bank advances decreased \$11,859,000, or 5.7%. Securities sold under repurchase agreements and other borrowed funds were up \$2,915,000, or 11.0%.

Total stockholders' equity increased \$13,057,000, or 15.4%, the result of earnings retention, and \$5,689,000 net increase from the unrealized gain (loss) on the securities available-for-sale.

Results of Operations

Interest Income - Interest income was \$78,837,000 compared to \$64,719,000 for the years ended December 31, 2000 and 1999, respectively, a \$14,118,000, or 21.8% increase. The weighted average yield on the loan and investment portfolios increased from 7.97% to 8.51%, the results of higher interest rates, increased volumes in loans, and the continued change in loan mix from real estate loans to higher yielding commercial and consumer loans.

Interest Expense - Interest expense was \$37,357,000 for the year ended December 31, 2000, up from \$27,635,000 in 1999, a \$9,722,000, or 35.2%, increase. The increase is due to higher interest rates and larger balances during the year in interest bearing deposits and FHLB advances. Repurchase agreements and other borrowed funds and related interest expense increased during 2000. The increased interest expense resulting from the higher balances, and rates, in interest bearing liabilities was partially offset by the increase in non-interest bearing deposits. The cost of interest bearing liabilities increased from 4.2% in 1999 to 4.9% in 2000.

Net Interest Income - Net interest income was \$41,480,000 compared to \$37,084,000 in 1999, an increase of \$4,396,000, or 11.9%, the net result of the items discussed in the above paragraphs.

Provision for Loan Losses - The provision for loan losses was \$1,864,000 for 2000, up slightly from \$1,723,000 for 1999. Total loans charged off, net of recoveries, were \$787,000 in 2000, up from the \$669,000 experienced in 1999. The allowance for loan losses balance was \$7,799,000 at year end 2000, up from \$6,722,000 at year end 1999, an increase of \$1,077,000. At December 31, 2000, 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 \$2,097,000 or .20% of total assets; compared to \$2,278,000 or .23% of total assets at December 31, 1999. The allowance for loan losses was 372% of non-performing assets at December 31, 2000, up from 295% the prior year end. The allowance for loan losses as a percentage of loans increased to 1.06% from 1.02 % at the 2000 and 1999 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 \$13,294,000 was up \$485,000, or 3.8% from 1999. Loan fees and charges were \$164,000 below the prior year, due mostly to a slowdown in real estate loan origination and sale activity resulting from higher mortgage rates in 2000. Increased volumes in deposit accounts resulted in an increase in fee income of \$1,423,000 from service charges and other fees. Other income was up \$257,000, most of which was from the sale of two small branches in 2000. The gain on sale of investments was \$51,000 in 2000, up from \$23,000 in 1999.

Non-interest expense - Total non-interest expense increased from \$29,096,000 to \$31,327,000 an increase of \$2,231,000, or 7.7%. Compensation, employee benefits, and related expenses increased \$1,657,000, or 11.4% from 1999 resulting from additional branch and data center staffing, increased activity volumes, and other normal increases. Occupancy and equipment expense increased \$658,000, or 15.8% from 1999, 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 up \$98,000, or 8.1%,. The other category of expense is the minority interest in subsidiaries which increased \$10,000.

The efficiency ratio (non-interest expense)/(net interest income + non-interest income), was 57.2% in 2000, down from 58.3% in 1999, which compares favorably 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, 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 \$187,199,000 or 23.8% over the December 31, 1998 asset level. Total loans outstanding increased 14.2%, or \$81,020,000 with the largest increase occurring in the commercial classification which increased \$63,720,000, or 29.5%. Consumer loans increased \$31,464,000 or 25.6%. Residential real estate loans and loans held for sale declined \$13,114,000 or 5.5%, 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 \$90,225,000, or 75.8%. 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 \$186,289,000, or 26.5%, with non-interest bearing deposits up \$10,973,000, or 9.5%, and interest bearing deposits up \$86,630,000 or 20.1%. Federal Home Loan Bank advances increased \$82,764,000, or 65.7%. Securities sold under repurchase agreements and other borrowed funds were up \$7,907,000, or 42.3%.

Total stockholders' equity increased \$910,000 or 1.1%, the result of earnings retention, offset by a \$6,604,000 net change in accumulated other comprehensive income (loss), the result of unrealized losses on securities available-for-sale.

Results of Operations

Interest Income - Interest income was \$64,719,000 compared to \$58,828,000 for the years ended December 31, 1999 and 1998, respectively, a \$5,891,000 or 10% 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 \$27,635,000 for the year ended December 31, 1999, up from \$25,470,000 in 1998, a \$2,165,000, or 8.5%, 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 4.5% in 1998 to 4.2% in 1999.

Net Interest Income - Net interest income was \$37,084,000 compared to \$33,358,000 in 1998, an increase of \$3,726,000, or 11.2%, the net result of the items discussed in the above paragraphs.

Provision for Loan Losses - The provision for loan losses was \$1,723,000 for 1999, down slightly from \$1,735,000 for 1998. Total loans charged off, net of recoveries, were \$669,000 in 1999, down from the \$721,000 experienced in 1998. The allowance for loan losses balance was \$6,722,000 at year end 1999, up from \$5,668,000 at year end 1998, an increase of \$1,054,000. 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) totaled \$2,278,000 or .23% of total assets; compared to \$3,067,000 or .39% of total assets at December 31, 1998. The allowance for loan losses was 295% of non-performing assets at December 31, 1999, up from 185% 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 \$12,809,000 was down \$787,000, or 5.8% 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 approximately the same as the prior year. Increased volumes in deposit accounts resulted in an increase in fee income of \$499,000 from service charges and other fees. Other income was down \$485,000 most of which was the gain on sale of credit card and trust business in 1998. The gain on sale of investments was \$23,000 in 1999, down from \$62,000 in 1998. Real estate loans sold totaled \$158,204,000 in 1999 down from \$205,783,000 in 1998. Commercial loan sales totaled \$10,796,000 and \$8,756,000 for 1999 and 1998, respectively.

Non-interest expense - Total non-interest expense increased from \$27,170,000 to \$29,096,000 an increase of \$1,926,000, or 7.1%. Compensation, employee benefits, and related expenses increased \$1,166,000, or 8.7% from 1998, with the new branches and expanded data processing staff included. Occupancy and equipment expense increased \$585,000, or 16.3% 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 up \$269,000, or 2.7%, 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 58.3% in 1999, up from 57.9% in 1998, as compared with similar sized bank holding companies nationally which average approximately 61.28%.

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