GLACIER BANCORP INC
Form 10-Q
May 07, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended March 31, 2010

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

For the transition period from __________ to __________

COMMISSION FILE 0-18911

GLACIER BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

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

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [X]	Accelerated Filer [ ]
Non-Accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller reporting Company [ ]

Indicate by checkmark whether the registrant is a shell company (as defined in

Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The number of shares of Registrant's common stock outstanding on April 30, 2010 was 71,912,768. No preferred shares are issued or outstanding.

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

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GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except per share data)	MARCH 31, 2010	De
ASSETS		
Cash on hand and in banks	$ 93,242	
Federal funds sold	71,250	
Interest bearing cash deposits	12,595	
Cash and cash equivalents	177,087	
Investment securities, available-for-sale	1,637,646	
Loans held for sale	56,595	
Loans receivable, gross	4,015,361	

Allowance for loan and lease losses	(143,600)
Loans receivable, net	3,928,356
Premises and equipment, net	140,994
Real estate and other assets owned, net	59,481
Accrued interest receivable	28,356
Deferred tax asset	37,404
Core deposit intangible, net	13,117
Goodwill	146,259
Other assets	57,168
Total assets	$ 6,225,868
LIABILITIES	
Non-interest bearing deposits	$ 828,141
Interest bearing deposits	3,336,703
Advances from Federal Home Loan Bank	802,886
Securities sold under agreements to repurchase	242,110
Federal Reserve Bank discount window	--
Other borrowed funds	6,784
Accrued interest payable	7,983
Subordinated debentures	125,024
Other liabilities	37,782
Total liabilities	5,387,413
STOCKHOLDERS' EQUITY	
Preferred shares, $0.01 par value per share, 1,000,000 shares authorized, none issued or outstanding	--
Common stock, $0.01 par value per share, 117,187,500 shares authorized	719
Paid-in capital	643,371
Retained earnings - substantially restricted	188,851
Accumulated other comprehensive gain (loss)	5,514
Total stockholders' equity	838,455
Total liabilities and stockholders' equity	$ 6,225,868
Number of shares outstanding	71,911,268
Book value per share	$ 11.66

See accompanying notes to condensed consolidated financial statements.

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GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,	
(Dollars in thousands, except per share data)	2010	2009
INTEREST INCOME		
Residential real estate loans	$ 11,833	14,341
Commercial loans	36,672	37,966
Consumer and other loans	10,640	11,339

Investment securities and other	14,253	11,886
Total interest income	73,398	75,532
INTEREST EXPENSE		
Deposits	9,331	10,134
Federal Home Loan Bank advances	2,311	1,819
Securities sold under agreements to repurchase	416	594
Subordinated debentures	1,636	1,907
Other borrowed funds	190	700
Total interest expense	13,884	15,154
NET INTEREST INCOME	59,514	60,378
Provision for loan losses	20,910	15,715
Net interest income after provision for loan losses	38,604	44,663
NON-INTEREST INCOME		
Service charges and other fees	9,520	9,019
Miscellaneous loan fees and charges	1,126	1,160
Gain on sale of loans	3,891	6,150
Gain on sale of investments	314	--
Other income	1,332	1,048
Total non-interest income	16,183	17,377
NON-INTEREST EXPENSE		
Compensation, employee benefits and related expense	21,356	21,944
Occupancy and equipment expense	5,948	5,895
Advertising and promotions	1,592	1,724
Outsourced data processing expense	694	671
Core deposit intangibles amortization	820	774
Foreclosed asset expenses, losses and write-downs	2,318	520
Federal Deposit Insurance Corporation premiums	2,200	1,168
Other expense	7,033	6,930
Total non-interest expense	41,961	39,626
EARNINGS BEFORE INCOME TAXES	12,826	22,414
Federal and state income tax expense	2,756	6,635
NET EARNINGS	$ 10,070	15,779
Basic earnings per share	$ 0.16	0.26
Diluted earnings per share	$ 0.16	0.26
Dividends declared per share	$ 0.13	0.13
Return on average assets (annualized)	0.67%	1.15%
Return on average equity (annualized)	5.75%	9.27%
Average outstanding shares - basic	62,763,299	61,460,619
Average outstanding shares - diluted	62,763,299	61,468,167

See accompanying notes to condensed consolidated financial statements.

GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AND COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2009 AND THREE MONTHS ENDED MARCH 31, 2010

(Dollars in thousands, except per share data)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Ret Ear Substa Rest
Balance at December 31, 2008	61,331,273	$ 613	491,794	185
Comprehensive income:				
Net earnings	--	--	--	34
Unrealized gain on securities, net of reclassification adjustment and taxes	--	--	--	
Total comprehensive income				
Cash dividends declared ($0.52 per share)	--	--	--	(32
Stock options exercised	188,535	2	2,552	
Stock issued in connection with acquisition	99,995	1	1,419	
Stock based compensation and tax benefit	--	--	1,728	
Balance at December 31, 2009	61,619,803	$ 616	497,493	188
Comprehensive income:				
Net earnings	--	--	--	10
Unrealized gain on securities, net of reclassification adjustment and taxes	--	--	--	
Total comprehensive income				
Cash dividends declared ($0.13 per share)	--	--	--	(9
Public offering of stock issued	10,291,465	103	145,602	
Stock based compensation and tax benefit	--	--	276	
Balance at March 31, 2010	71,911,268	$ 719	643,371	188

See accompanying notes to condensed consolidated financial statements.

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GLACIER BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	THREE MONTHS ENDED 2010
OPERATING ACTIVITIES	
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 62,937
INVESTING ACTIVITIES	
Proceeds from sales, maturities and prepayments of investments available-for-sale	107,235

Purchases of investments available-for-sale		(229,917)
Principal collected on commercial and consumer loans		166,829
Commercial and consumer loans originated or acquired		(166,437)
Principal collections on real estate loans		40,490
Real estate loans originated or acquired		(28,026)
Net purchase of FHLB and FRB stock		(677)
Proceeds from sale of other real estate owned		5,689
Net addition of premises and equipment and other real estate owned		(2,858)
NET CASH USED IN INVESTMENT ACTIVITIES		(107,672)
FINANCING ACTIVITIES		
Net increase in deposits		64,692
Net increase (decrease) in FHLB advances		12,519
Net increase in securities sold under repurchase agreements		29,604
Net (decrease) increase in Federal Reserve Bank discount window		(225,000)
Net decrease in other borrowed funds		(6,925)
Cash dividends paid		(9,348)
Excess tax benefits from stock options		--
Proceeds from exercise of stock options and other stock issued		145,705
NET CASH PROVIDED BY FINANCING ACTIVITIES		11,247
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(33,488)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		210,575
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	177,087
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$	13,829
Cash paid during the period for income taxes		--
Sale and refinancing of other real estate owned		4,319
Other real estate acquired in settlement of loans		13,418

See accompanying notes to condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Glacier Bancorp Inc.'s (the "Company") financial condition as of March 31, 2010 and 2009, stockholders' equity and comprehensive income for the three months ended March 31, 2010, the results of operations for the three months ended March 31, 2010 and 2009, and cash flows for the three months ended March 31, 2010 and 2009. The condensed consolidated statement of financial condition and statement of stockholders' equity and comprehensive income of the Company as of December 31, 2009 have been derived from the audited consolidated statements of the Company as of that date.

The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2009. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results anticipated for the year ending December 31, 2010. Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses ("ALLL" or "allowance") and the valuations related to investments, business combinations and real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the ALLL and other real estate valuation estimates management obtains independent appraisals for significant items. Estimates relating to investments are obtained from independent parties. Estimates relating to business combinations are determined based on internal calculations using significant independent party inputs and independent party valuations.

2) Organizational Structure

The Company, headquartered in Kalispell, Montana, is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation incorporated in 1990. The Company is a regional multi-bank holding company that provides a full range of banking services to individual and corporate customers in Montana, Idaho, Wyoming, Colorado, Utah and Washington through its bank subsidiaries (collectively referred to hereafter as the "Banks"). The bank subsidiaries are subject to competition from other financial service providers. The bank subsidiaries are also subject to the regulations of certain government agencies and undergo periodic examinations by those regulatory authorities.

As of March 31, 2010, the Company is the parent holding company for eleven wholly-owned, independent community bank subsidiaries: Glacier Bank ("Glacier"), First Security Bank of Missoula ("First Security"), Western Security Bank ("Western"), Big Sky Western Bank ("Big Sky"), Valley Bank of Helena ("Valley"), and First Bank of Montana ("First Bank-MT"), all located in Montana, Mountain West Bank ("Mountain West") and Citizens Community Bank ("Citizens") located in Idaho, 1st Bank ("1st Bank") and First National Bank & Trust ("First National") located in Wyoming, and Bank of the San Juans ("San Juans") located in Colorado.

In addition, the Company owns seven trust subsidiaries, Glacier Capital Trust II ("Glacier Trust II"), Glacier Capital Trust III ("Glacier Trust III"), Glacier Capital Trust IV ("Glacier Trust IV"), Citizens (ID) Statutory Trust I ("Citizens Trust I"), Bank of the San Juans Bancorporation Trust I ("San Juans Trust I"), First Company Statutory Trust 2001 ("First Co Trust 01") and First Company Statutory Trust 2003 ("First Co Trust 03") for the purpose of issuing trust preferred securities and, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification(TM) ("ASC") Topic 810, Consolidation, the trust subsidiaries are not consolidated into the Company's financial statements. The Company does not have any other off-balance sheet entities.

On October 2, 2009, the Company completed the acquisition of First Company and its subsidiary First National. First National became a separate wholly-owned subsidiary of the Company and the financial condition and results of operations are included from the acquisition date.

On February 1, 2009, First National Bank of Morgan ("Morgan") merged into 1st Bank resulting in operations being conducted under the 1st Bank charter. Prior period activity of Morgan has been combined and included in 1st Bank's historical results. The merger has been accounted for as a combination of two wholly-owned subsidiaries without acquisition accounting.

FASB ASC Topic 810, Consolidation, provides guidance as to when a company should consolidate the assets, liabilities, and activities of a variable interest entity ("VIE") in its financial statements, and when a company should disclose information about its relationship with a VIE. A VIE is a legal structure used to conduct activities or hold assets, and a VIE must be consolidated by a company if it is the primary beneficiary that absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both.

The Company has equity investments in Certified Development Entities ("CDE") which have received allocations of new market tax credits ("NMTC"). The Company also has equity investments in low-income housing tax credit ("LIHTC") partnerships. The CDE's and the LIHTC partnerships are VIE's. The underlying activities of the VIE's are community development projects designed primarily to promote community welfare, such as economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents. The maximum exposure to loss in the VIE's is the amount of equity invested or credit extended by the Company; however, the Company has credit protection in the form of indemnification agreements, guarantees, and collateral arrangements. The Company has evaluated the variable interests held by the Company and others and where the Company is the primary beneficiary of a VIE, the VIE has been consolidated into the bank subsidiary which holds the direct investment in the VIE. Currently, only CDE (NMTC) investments are consolidated into the Company's financial statements. For the CDE (NMTC) investments, the creditors and other beneficial interest holders have no recourse to the general credit of the bank subsidiaries. As of March 31, 2010, the Company had investments in VIE's of $30,543,000 and $2,294,000 for the CDE (NMTC) and LIHTC partnerships, respectively. The consolidated VIE's as well as the unconsolidated VIE's are regularly monitored by the Company to determine if any reconsideration events have occurred that could cause its primary beneficiary status to change.

See Note 12 - Segment Information for selected financial data including net earnings and total assets for the parent company and each of the community bank subsidiaries. Although the consolidated total assets of the Company were $6.2 billion at March 31, 2010, nine of the eleven community banks had total assets of less than $1 billion. The smallest community bank subsidiary had $177 million in total assets, while the largest community bank subsidiary had $1.3 billion in total assets at March 31, 2010.

The following abbreviated organizational chart illustrates the various relationships as of March 31, 2010:

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                                                   |----------------------------|
                                                   |   Glacier Bancorp, Inc.    |
                                                   |  (Parent Holding Company)  |
                                                   |----------------------------|
                                                                |
|----------------------------|-|----------------------------|---|----------------------------|-|-
|        Glacier Bank        | |      Mountain West Bank    | | |     First Security Bank    | |
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|     (MT Community Bank)     | |     (ID Community Bank)     | | |         of Missoula         | |
|                             | |                             | | |     (MT Community Bank)     | |
|-----------------------------| |-----------------------------| | |-----------------------------| |-
                                                                |
|-----------------------------|-|-----------------------------|-|-|-----------------------------|-|-
|    Western Security Bank    | |           Big Sky           | | |         Valley Bank         | |
|     (MT Community Bank)     | |        Western Bank         | | |          of Helena          | |
|                             | |     (MT Community Bank)     | | |     (MT Community Bank)     | |
|-----------------------------| |-----------------------------| | |-----------------------------| |-
                                                                |
|-----------------------------|-|-----------------------------|-|-|-----------------------------|-|-
|   Citizens Community Bank   | |    First Bank of Montana    | | |         Bank of the         | |
|     (ID Community Bank)     | |     (MT Community Bank)     | | |          San Juans          | |
|                             | |                             | | |     (CO Community Bank)     | |
|-----------------------------| |-----------------------------| | |-----------------------------| |-
                                                                |
                                                                |
|-----------------------------|-|-----------------------------|-|-|-----------------------------|-|-
|                             | |                             | | |  Citizens (ID) Statutory    | |
| Glacier Capital Trust III   | | Glacier Capital Trust IV    | | |          Trust I            | |
|                             | |                             | | |                             | |
|-----------------------------| |-----------------------------| | |-----------------------------| |-
                                                                |
                        |-----------------------------|-----------------|-----------------------------
                        |        First Company        |                 |        First Company
                        |    Statutory Trust 2001     |                 |    Statutory Trust 2003
                        |                             |                 |
                        |-----------------------------|                 |-----------------------------
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3) Investment Securities

A comparison of the amortized cost and estimated fair value of the Company's investment securities, available-for-sale and other investments is as follows:

AS OF MARCH 31, 2010

(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	E
U.S. GOVERNMENT AND FEDERAL AGENCY					
maturing after one year through five years	1.62%	$ 209	--	--	
GOVERNMENT SPONSORED ENTERPRISES					
maturing after one year through five years	3.15%	70	--	--	
maturing after five years through ten years	2.00%	88	--	--	
maturing after ten years	1.15%	11	--	--	
	2.42%	169	--	--	
STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES					
maturing within one year	2.59%	2,196	9	--	
maturing after one year through five years	3.48%	9,427	217	(5)	
maturing after five years through ten years	3.99%	25,891	703	(109)	

maturing after ten years	4.70%	453,204	10,384	(2,369)	
	4.63%	490,718	11,313	(2,483)	
COLLATERALIZED DEBT OBLIGATIONS					
maturing after ten years	8.40%	14,687	--	(5,513)	
RESIDENTIAL MORTGAGE-BACKED SECURITIES	2.92%	1,058,910	15,940	(10,189)	1
TOTAL MARKETABLE SECURITIES	3.51%	1,564,693	27,253	(18,185)	1
OTHER INVESTMENTS					
FHLB and FRB stock, at cost	1.35%	63,261	--	--	
Other stock	0.05%	624	4	(4)	
TOTAL INVESTMENTS	3.42%	$1,628,578	27,257	(18,189)	1

AS OF DECEMBER 31, 2009

(DOLLARS IN THOUSANDS)	Weighted Yield	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. GOVERNMENT AND FEDERAL AGENCY				
maturing after one year through five years	1.62%	$ 210	--	(1)
GOVERNMENT SPONSORED ENTERPRISES				
maturing after one year through five years	3.21%	74	--	--
maturing after five years through ten years	1.64%	40	--	--
maturing after ten years	2.05%	63	--	--
	2.43%	177	--	--
STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES				
maturing within one year	2.48%	2,040	6	--
maturing after one year through five years	3.30%	9,326	208	(12)
maturing after five years through ten years	3.84%	27,125	786	(168)
maturing after ten years	4.80%	434,165	10,140	(2,640)
	4.71%	472,656	11,140	(2,820)
COLLATERALIZED DEBT OBLIGATIONS				
maturing after ten years	8.40%	14,688	--	(7,899)
RESIDENTIAL MORTGAGE-BACKED SECURITIES	3.42%	956,033	15,167	(16,158)
TOTAL MARKETABLE SECURITIES	3.89%	1,443,764	26,307	(26,878)
OTHER INVESTMENTS				
FHLB and FRB stock, at cost	1.30%	62,577	--	--
Other stock	0.05%	624	--	--
TOTAL INVESTMENTS	3.78%	$1,506,965	26,307	(26,878)

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. Weighted yields on tax-exempt investment securities exclude the tax effect.

Interest income includes tax-exempt interest for the three months ended March 31, 2010 and 2009 of $5,568,000 and $5,331,000, respectively.

Gross proceeds from sale of marketable securities for the three months ended March 31, 2010 and 2009 were $9,058,000 and $0, respectively, resulting in gross gains of $390,000 and $0, respectively, and gross losses of $76,000 and $0, respectively. The cost of any investment sold is determined by specific identification.

At March 31, 2010, the Company had investment securities with carrying values of approximately $1,243,560,000, pledged as collateral for Federal Home Loan Bank ("FHLB") advances, Federal Reserve Bank ("FRB") discount window borrowings, securities sold under agreements to repurchase, U.S. Treasury Tax and Loan borrowings and deposits of several local government units.

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The investments in the FHLB stock are required investments related to the Company's borrowings from FHLB. FHLB obtains its funding primarily through issuance of consolidated obligations of the FHLB system. The U.S. Government does not guarantee these obligations, and each of the 12 FHLBs are jointly and severally liable for repayment of each other's debt.

Investments with an unrealized loss position at March 31, 2010:

	Less than 12 months		12 Months or More	
(dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealiz Loss
State and local governments and other issues	$ 71,987	1,634	18,220	849
Collateralized debt obligations	1,960	40	7,214	5,473
Residential mortgage-backed securities	446,361	2,972	42,604	7,217
Other investments - other stock	8	4	--	--
Total temporarily impaired securities	$520,316	4,650	68,038	13,539

Investments with an unrealized loss position at December 31, 2009:

	Less than 12 months		12 Months or More	
(dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealiz Loss
U.S. Government and federal agency	$ 208	1	--	--
State and local governments and other issues	74,045	1,835	18,094	985

Collateralized debt obligations	6,789	7,899	--	--
Residential mortgage-backed securities	466,196	3,861	39,780	12,297
Total temporarily impaired securities	$547,238	13,596	57,874	13,282

The Company assesses individual securities in its investment securities portfolio for impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant. An investment is impaired if the fair value of the security is less than its carrying value at the financial statement date. If impairment is determined to be other-than-temporary, an impairment loss is recognized by reducing the amortized cost for the credit loss portion of the impairment with a corresponding charge to earnings.

For fair value estimates provided by third party vendors, management also considered the models and methodology, for appropriate consideration of both observable and unobservable inputs, including appropriately adjusted discount rates and credit spreads for securities with limited or inactive markets, and whether the quoted prices reflect orderly transactions, For certain securities, the Company obtained independent estimates of inputs, including cash flows, in supplement to third party vendor provided information. The Company also reviewed financial statements of select issuers, with follow up discussions with issuers' management for clarification and verification of information relevant to the Company's impairment analysis.

In evaluating debt securities for other-than-temporary impairment losses, management assesses whether the Company intends to sell or if it is more likely-than-not that it will be required to sell impaired debt securities. In so doing, management considers contractual constraints, liquidity, capital, asset / liability management and securities portfolio objectives. With respect to its impaired debt securities at March 31, 2010, management determined that it does not intend to sell and that there is no expected requirement to sell any of its impaired debt securities.

Based on an analysis of its impaired securities as of March 31, 2010, the Company determined that none of such securities had other-than-temporary impairment. For further information regarding the assessment of other-than-temporary impairment on securities, see discussion in "ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Other-Than-Temporary Impairment on Securities Accounting Policy and Analysis."

4) Loans Receivable, Net and Loans Held for Sale

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

	March 31, 2010		December 31, 2009	
(Dollars in thousands)	Amount	Percent	Amount	Percent
Real estate loans				
Residential	$ 731,712	18.6%	$ 746,050	18.7%

Held for sale	56,595	1.4%	66,330	1.7%
Total	788,307	20.0%	812,380	20.4%
Commercial loans				
Real estate	1,883,589	48.0%	1,900,438	47.7%
Other commercial	719,565	18.3%	724,966	18.2%
Total	2,603,154	66.3%	2,625,404	65.9%
Consumer and other loans				
Consumer	195,561	5.0%	201,001	5.0%
Home equity	493,668	12.6%	501,920	12.6%
Total	689,229	17.6%	702,921	17.6%
Net deferred loan fees premiums and discounts	(8,734)	-0.2%	(10,460)	-0.3%
Loans receivable, gross	4,071,956	103.7%	4,130,245	103.6%
Allowance for loan and lease losses	(143,600)	-3.7%	(142,927)	-3.6%
Loans receivable, net	$ 3,928,356	100.0%	$ 3,987,318	100.0%

In June 2009, FASB issued an amendment to FASB ASC Topic 860, Accounting for Transfers and Servicing of Financial Assets, and is effective for transfers occurring after the beginning of the first annual reporting period that begins after November 15, 2009. The Company adopted this amendment for all new transfers, primarily consisting of transfers of loans, occurring on or subsequent to January 1, 2010. The Company generally sells its long-term mortgage loans originated, retaining servicing only when required by certain lenders. The sale of loans in the secondary mortgage market reduces the Company's risk of holding long-term fixed rate loans in the loan portfolio. Mortgage loans sold with no servicing rights retained for the three months ended March, 2010 and 2009 were $182,642,000 and $312,917,000, respectively. The amount of loans sold and serviced for others at March 31, 2010 was approximately $177,177,000.

In accordance with this amendment, transfers of SBA loans are recognized as sales when the warranty period expires which is typically 90 days. The Company has been active in originating commercial SBA loans, some of which are sold to investors. As of March 31, 2010, the Company had $6,188,000 of SBA loans sold for which there was a deferred gain of $576,000 due to unexpired warranty periods.

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The Company occasionally purchases and sells other loan participations, the majority of which are large commercial loans. For participation transactions after the adoption of the amendment, the bank subsidiaries typically originates and sells the loan participations, at fair value, on a proportionate ownership basis, with no recourse conditions.

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

(Dollars in thousands)	March 31, 2010	December 31, 2009	March 31, 2009

Real estate and other assets owned	$ 59,481	57,320	18,985
Accruing loans 90 days or more overdue	10,489	5,537	4,439
Non-accrual loans	198,169	198,281	92,288
Total non-performing assets	$268,139	261,138	115,712
Non-performing assets as a percentage of total bank assets	4.19%	4.13%	1.97%

The following table summarizes impaired loans at the dates indicated:

(Dollars in thousands)	March 31, 2010	December 31, 2009	March 31, 2009
Impaired loans, gross	$223,464	218,742	100,076
Valuation allowance included in ALLL	(17,036)	(19,760)	(10,669)
Impaired loans, net	$206,428	198,982	89,407

The following table illustrates the loan and lease loss experience:

(Dollars in thousands)	March 31, 2010	December 31, 2009	March 31, 2009
Balance at the beginning of the year	$142,927	76,739	76,739
Charge-offs	(21,477)	(60,896)	(8,994)
Recoveries	1,240	2,466	317
Provision	20,910	124,618	15,715
Balance at the end of the period	$143,600	142,927	83,777
Net charge-offs as a percentage of total loans	0.497%	1.415%	0.209%

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5) Intangible Assets

The following table sets forth information regarding the Company's core deposit intangible and mortgage servicing rights as of March 31, 2010:

(Dollars in thousands)	Core Deposit Intangible	Mortgage Servicing Rights (1)	Total
Gross carrying value	$ 31,847		
Accumulated amortization	(18,730)		

Net carrying value	$ 13,117	1,017	14,134
WEIGHTED-AVERAGE AMORTIZATION PERIOD			
(Period in years)	9.1	9.3	9.1
AGGREGATE AMORTIZATION EXPENSE			
For the three months ended March 31, 2010	$ 820	35	855
ESTIMATED AMORTIZATION EXPENSE			
For the year ended December 31, 2010	$ 2,603	89	2,692
For the year ended December 31, 2011	1,895	71	1,966
For the year ended December 31, 2012	1,534	69	1,603
For the year ended December 31, 2013	1,283	67	1,350
For the year ended December 31, 2014	1,034	65	1,099

(1) The mortgage servicing rights are included in other assets and gross carrying value and accumulated amortization are not readily available.

Acquisitions are accounted for as prescribed by FASB ASC Topic 805, Business Combinations. Acquisition accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets. Goodwill is recorded if the purchase price exceeds the net fair value of assets acquired and a bargain purchase gain is recorded in other income if the net fair value of assets acquired exceeds the purchase price.

Adjustment of the allocated purchase price may be related to fair value estimates for which all information has not been obtained of the acquired entity known or discovered during the allocation period, the period of time required to identify and measure the fair values of the assets and liabilities acquired in the business combination.

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6) Deposits

The following table illustrates the amounts outstanding for deposits $100,000 and greater at March 31, 2010 according to the time remaining to maturity. Included in the Certificates of Deposit are brokered deposits of $250,317,000, of which $233,865,000 are issued through the Certificate of Deposit Account Registry System. Included in the Demand Deposits are brokered deposits of $124,313,000.

(Dollars in thousands)	Certificates of Deposit	Demand Deposits	Totals
Within three months	$216,483	1,624,477	1,840,960
Three months to six months	239,179	--	239,179
Seven months to twelve months	201,628	--	201,628
Over twelve months	110,273	--	110,273
Totals	$767,563	1,624,477	2,392,040

7) Advances and Other Borrowings

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

(Dollars in thousands)	As of and for the Three Months ended March 31, 2010	As of and for the Year ended December 31, 2009	Ma
FHLB advances			
Amount outstanding at end of period	$ 802,886	790,367	
Average balance	$ 802,000	473,038	
Maximum outstanding at any month-end	$ 807,644	790,367	
Weighted average interest rate	1.17%	1.68%	
Repurchase agreements			
Amount outstanding at end of period	$ 242,110	212,506	
Average balance	$ 226,351	204,503	
Maximum outstanding at any month-end	$ 242,110	234,914	
Weighted average interest rate	0.74%	0.98%	
Federal Reserve Bank discount window			
Amount outstanding at end of period	$ --	225,000	
Average balance	$ 144,500	658,262	
Maximum outstanding at any month-end	$ 235,000	1,005,000	
Weighted average interest rate	0.25%	0.26%	
Totals			
Amount outstanding at end of period	$1,044,996	1,227,873	
Average balance	$1,172,851	1,335,803	
Maximum outstanding at any month-end	$1,284,754	2,030,281	
Weighted average interest rate	0.97%	0.87%	

8) Stockholders' Equity

The Federal Reserve Board has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. The following table illustrates the Federal Reserve Board's capital adequacy guidelines and the Company's compliance with those guidelines as of March 31, 2010.

(Dollars in thousands)	Tier 1 (Core) Capital	Tier 2 (Total) Capital	Leverage Capital
Total stockholders' equity	$ 838,455	838,455	838,455
Less: Goodwill and intangibles	(152,982)	(152,982)	(152,982)
Accumulated other comprehensive unrealized gain on AFS securities	(5,514)	(5,514)	(5,514)
Plus: Allowance for loan and lease losses	--	58,905	--
Subordinated debentures	124,500	124,500	124,500
Regulatory capital	$ 804,459	863,364	804,459

Risk weighted assets	$4,627,885	4,627,885	
Total adjusted average assets			$5,984,063
Capital as % of risk weighted assets	17.38%	18.66%	13.44%
Regulatory "well capitalized" requirement	6.00%	10.00%	5.00%
Excess over "well capitalized" requirement	11.38%	8.66%	8.44%

9) Earnings Per Share

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

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

	For the Three Months ended March 31, 2010	2009
Net earnings available to common stockholders, basic and diluted	$10,070,000	15,779,000
Average outstanding shares - basic	62,763,299	61,460,619
Add: dilutive stock options	--	7,548
Average outstanding shares - diluted	62,763,299	61,468,167
Basic earnings per share	$ 0.16	0.26
Diluted earnings per share	$ 0.16	0.26

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There were approximately 2,408,381 and 2,386,064 average shares excluded from the diluted average outstanding share calculation for the three months ended March 31, 2010 and 2009, respectively, due to the option exercise price exceeding the market price.

10) Comprehensive Income

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

(Dollars in thousands)	For the Three Months ended March 31, 2010	2009

Net earnings	$ 10,070	15,779
Unrealized holding gain (loss) arising during the period	9,953	(9,552)
Tax (expense) benefit	(3,900)	3,739
Net after tax	6,053	(5,813)
Reclassification adjustment for gains included in net earnings	(314)	--
Tax expense	123	--
Net after tax	(191)	--
Net unrealized gain (loss) on securities	5,862	(5,813)
Total comprehensive income	$ 15,932	9,966

11) Federal and State Income Taxes

The Company and its bank subsidiaries join together in the filing of consolidated income tax returns in the following jurisdictions: federal, Montana, Idaho, Colorado and Utah. Although 1st Bank and First National have operations in Wyoming and Mountain has operations in Washington, neither Wyoming nor Washington imposes a corporate-level income tax. All required income tax returns have been timely filed. The following schedule summarizes the years that remain subject to examination:

	Years ended December 31,
Federal	2006, 2007 and 2008
Montana	2003, 2004, 2005, 2006, 2007 and 2008
Idaho	2003, 2004, 2005, 2006, 2007 and 2008
Colorado	2005, 2006, 2007 and 2008
Utah	2006, 2007 and 2008

During 2009, the Company made investments in CDE's which received NMTC allocations. Administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury, the NMTC program is aimed at stimulating economic and community development and job creation in low-income communities. The federal income tax credits received are claimed over a seven-year credit allowance period. In addition to previous LIHTC investments, during the third quarter 2009, the Company made another investment in a LIHTC. The LIHTC is an indirect Federal subsidy used to finance the development of affordable rental housing for low-income households. The federal income tax credits received are claimed over a ten-year credit allowance period. The Company invests in Qualified Zone Academy and Qualified School Construction bonds whereby the Company receives quarterly federal income tax credits until the bonds mature. The federal income tax credits on the bonds are subject to federal and state income tax. Following is a list of expected federal income tax credits to be received in the years indicated.

Years ended (Dollars in thousands)	New Market Tax Credits	Low-Income Housing Tax Credits	Investment Securities Tax Credits
2010	$ 1,530	337	916
2011	1,530	785	970
2012	1,836	785	970
2013	1,836	785	970
2014	1,836	785	970
Thereafter	1,836	3,324	8,349
	$10,404	6,801	13,145

In accordance with FASB ASC Topic 740, Income Taxes, the Company determined its unrecognized tax benefit to be $0 and $152,000 as of March 31, 2010 and 2009, respectively.

The Company recognizes interest related to unrecognized income tax benefits in interest expense and penalties are recognized in other expense. During the three months ended March 31, 2010 and 2009, the Company recognized $0 interest expense and recognized $0 penalty with respect to income tax liabilities. The Company had approximately $0 and $37,000 accrued for the payment of interest at March 31, 2010 and 2009, respectively. The Company had accrued liabilities of $0 for the payment of penalties at March 31, 2010 and 2009.

12) Operating Segment Information

FASB ASC Topic 280, Segment Reporting, requires that a public business enterprise report financial and descriptive information about its reportable operating segments. 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 makers in deciding how to allocate resources and in assessing performance. The Company defines operating segments and evaluates segment performance internally based on individual bank charters. If required, VIEs are consolidated into the operating segment which invested into such entities.

The accounting policies of the individual operating segments are the same as those of the Company. Transactions between operating segments are conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations. Intersegment revenues primarily represents interest income on intercompany borrowings, management fees, and data processing fees received by individual banks or the parent company. Intersegment revenues, expenses and assets are eliminated in order to report results in accordance with accounting principles generally accepted in the United States of America. Expenses for centrally provided services are allocated based on the estimated usage of those services.

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

Three Months ended and as of March 31, 2010

(Dollars in thousands)	Glacier	Mountain West	First Security	1st Bank	Western	Big S
Revenues from external customers	$ 18,735	18,950	12,556	7,976	8,128	4,83
Intersegment revenues	48	19	18	91	132	-
Expenses	(17,735)	(18,484)	(10,160)	(6,501)	(6,317)	(4,50
Net Earnings	$ 1,048	485	2,414	1,566	1,943	33
Total Assets	$1,337,314	1,246,716	912,266	633,025	625,791	376,9

	First National	Citizens	First Bank of MT	San Juans	Parent	Elimi
Revenues from external customers	$ 4,040	4,148	2,420	2,637	63	
Intersegment revenues	8	--	50	--	14,636	(1
Expenses	(3,676)	(3,570)	(1,691)	(2,461)	(4,629)	
Net Earnings	$ 372	578	779	176	10,070	(1
Total Assets	$ 305,986	256,681	211,717	176,832	981,417	(1,15

Three Months ended and as of March 31, 2009

(Dollars in thousands)	Glacier	Mountain West	First Security	1st Bank	Western	Big S
Revenues from external customers	$ 20,739	21,380	13,312	8,311	8,939	5,6
Intersegment revenues	47	--	307	71	163	
Expenses	(16,211)	(20,190)	(10,112)	(7,303)	(7,049)	(4,5
Net Earnings	$ 4,575	1,190	3,507	1,079	2,053	1,1
Total Assets	$1,275,221	1,219,421	969,608	580,891	626,508	332,6

	Citizens	First Bank of MT	San Juans	Parent	Eliminations	Co
Revenues from external customers	$ 3,919	2,412	2,528	58	(32)	
Intersegment revenues	--	--	--	20,252	(20,859)	
Expenses	(3,319)	(1,767)	(2,113)	(4,531)	4,049	
Net Earnings	$ 600	645	415	15,779	(16,842)	

Total Assets	$227,445	159,939	171,284	817,135	(1,096,845)

13) Fair Value Measurement

FASB ASC Topic 820, Fair Value Measurements and Disclosures, requires the Company to disclose information relating to fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Topic establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following schedule discloses the major class of assets measured at fair value on a recurring basis for the period ended March 31, 2010:

(Dollars in thousands)	Assets/ Liabilities Measured at Fair Value 3/31/10	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significa Other Observab Inputs (Level 2
Financial Assets			
U.S. government agencies	$ 209	--	20
Government sponsored enterprises	169	--	16
State and local governments and other issues	499,548	--	499,54
Collateralized debt obligations	9,174	--	-
Residential mortgage-backed securities	1,064,661	--	1,063,09
Total financial assets	$1,573,761	--	1,563,01

The following schedule discloses the major class of assets measured at fair value on a recurring basis for the period ended March 31, 2009:

Assets/	Quoted Prices	Significa

(Dollars in thousands)	Liabilities Measured at Fair Value 3/31/09	in Active Markets for Identical Assets (Level 1)	Other Observab Inputs (Level 2
Financial Assets			
U.S. government agencies	$ 214	--	214
Government sponsored enterprises	300	--	300
State and local governments and other issues	441,621	--	441,347
Collateralized debt obligations	10,102	--	--
Residential mortgage-backed securities	451,716	--	446,927
Total financial assets	$903,953	--	888,788

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The following is a description of the inputs and valuation methodologies used for financial assets measured at fair value on a recurring basis. There have been no significant changes in the valuation techniques during the three month period ended March 31, 2010.

Investment securities - fair value for available-for-sale securities is estimated by obtaining quoted market prices for identical assets, where available. If such prices are not available, fair value is based on independent asset pricing services and models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. For those securities where greater reliance on unobservable inputs occurs, such securities are classified as Level 3 within the hierarchy.

The following schedules reconcile the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three month periods ended March 31, 2010 and 2009.

	Significant Unobservable Inputs (		
(Dollars in thousands)	Total	State and Local Government and Other Issues	Collateralized Debt Obligations
Balance as of December 31, 2009	$ 9,988	2,088	6,789
Total unrealized gains included in other comprehensive income	2,842	--	2,385
Transfers out of Level 3	(2,088)	(2,088)	--
Balance as of March 31, 2010	$10,742	--	9,174

Significant Unobservable Inputs (

(Dollars in thousands)	Total	State and Local Government and Other Issues	Collateralized Debt Obligations
Balance as of December 31, 2008	$23,421	284	15,540
Total unrealized gains included in other comprehensive income	(7,906)	--	(5,438)
Amortization, accretion and principal payments	(350)	(10)	--
Balance as of March 31, 2009	$15,165	274	10,102

The change in unrealized gains (losses) related to available-for-sale securities is reported in the accumulated other comprehensive income. The only state and local government security was transferred out of Level 3 and into Level 2 during the first quarter 2010 as a result of third party pricing being obtained as of March 31, 2010 and expected to be obtained in future quarters, whereas third party pricing was unavailable prior to March 31, 2010 for such security and there was a greater reliance on unobservable inputs for fair value.

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The following schedule discloses the major class of assets recorded at fair value on a non-recurring basis for the period ended March 31, 2010:

(Dollars in thousands)	Assets/ Liabilities Measured at Fair Value 3/31/10	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significa Other Observab Inputs (Level 2
Financial Assets			
Impaired loans, net of allowance for loan and lease losses	$45,698	--	--
Total financial assets	$45,698	--	--

The following schedule discloses the major class of assets recorded at fair value on a non-recurring basis for the period ended March 31, 2009:

(Dollars in thousands)	Assets/ Liabilities Measured at Fair Value 3/31/09	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significa Other Observab Inputs (Level 2
Financial Assets			
Impaired loans, net of allowance			

for loan and lease losses	$44,795	--	--
Total financial assets	$44,795	--	--

The following is a description of the inputs and valuation methodologies used for financial assets recorded at fair value on a non-recurring basis at March 31, 2010. There have been no significant changes in the valuation techniques during the three month period ended March 31, 2010.

Impaired loans, net of ALLL - loans included in the Company's financials for which it is probable that the Company will not collect all principal and interest due according to contractual terms are considered impaired in accordance with FASB ASC Topic 310, Receivables. Impaired loans are collateral-dependent and the estimated fair value is based on the fair value of the collateral. Impaired loans are classified within Level 3 of the fair value hierarchy.

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The following presents the carrying amounts and estimated fair values in accordance with FASB ASC Topic 825, Financial Instruments, as of March 31, 2010:

	March 31, 2010	
(Dollars in thousands)	Amount	Fair Value
Financial Assets		
Cash on hand and in banks	$ 93,242	93,242
Federal funds sold	71,250	71,250
Interest bearing cash deposits	12,595	12,595
Investment securities	509,724	509,724
Residential mortgage-backed securities	1,064,661	1,064,661
FHLB and FRB stock	63,261	63,261
Loans receivable, net of allowance for loan and lease losses	3,928,356	3,908,160
Accrued interest receivable	28,356	28,356
Total financial assets	$5,771,445	5,751,249
Financial Liabilities		
Deposits	$4,164,844	4,175,591
Advances from Federal Home Loan Bank	802,886	805,882
Repurchase agreements and other borrowed funds	248,894	248,909
Subordinated debentures	125,024	80,318
Accrued interest payable	7,983	7,983
Total financial liabilities	$5,349,631	5,318,683

The following is a description of the methods used to estimate the fair value of all other financial instruments recognized at amounts other than fair value.

Financial Assets

The estimated fair value of cash, federal funds sold, interest bearing cash deposits, and accrued interest receivable is the book value of such financial assets.

The estimated fair value of FHLB and FRB stock is book value due to the restrictions that such stock may only be sold to another member institution or the FHLB or FRB at par value.

Loans receivable, net of ALLL - fair value for unimpaired loans, net of ALLL, is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities. Impaired loans are primarily collateral-dependent and the estimated fair value is based on the fair value of the collateral.

Financial Liabilities

The estimated fair value of accrued interest payable is the book value of such financial liabilities.

Deposits - fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The estimated fair value of demand, NOW, savings, and money market deposits is the book value since rates are regularly adjusted to market rates.

Advances from FHLB - fair value of advances is estimated based on borrowing rates currently available to the Company for advances with similar terms and maturities.

Repurchase agreements and other borrowed funds - fair value of term repurchase agreements and other term borrowings is estimated based on current repurchase rates and borrowing rates currently available to the Company for repurchases and borrowings with similar terms and maturities. The estimated fair value for overnight repurchase agreements and other borrowings is book value.

Subordinated debentures - fair value of the subordinated debt is estimated by discounting the estimated future cash flows using current estimated market rates for subordinated debt issuances with similar characteristics.

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, such that no adjustment is necessary to reflect these commitments at market value.

14) Rate/Volume Analysis

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

(Dollars in thousands)	Three Months ended March 31, 2010 vs. 2009 Increase (Decrease) Due to: Volume	Rate	Net
INTEREST INCOME			
Residential real estate loans	$(1,221)	(1,287)	(2,508)
Commercial loans	(14)	(1,280)	(1,294)
Consumer and other loans	(257)	(442)	(699)
Investment securities	7,387	(5,020)	2,367
Total interest income	5,895	(8,029)	(2,134)
INTEREST EXPENSE			
NOW accounts	228	(53)	175
Savings accounts	42	(110)	(68)
Money market demand accounts	164	(613)	(449)
Certificate accounts	1,150	(2,374)	(1,224)
Wholesale deposits	2,594	(1,831)	763
FHLB advances	2,513	(2,021)	492
Repurchase agreements and other borrowed funds	(1,919)	960	(959)
Total interest expense	4,772	(6,042)	(1,270)
NET INTEREST INCOME	$ 1,123	(1,987)	(864)

15) Average Balance Sheet

The following schedule provides (i) the total dollar amount of interest and dividend income of the Company for earning assets and the resultant average yield; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest and dividend

income and interest rate spread; and (iv) net interest margin and net interest margin tax-equivalent. Non-accrual loans are included in the average balance of the loans.

(Dollars in thousands)	Three Months ended 3/31/10 Average Balance	Interest & Dividends	Average Yield/ Rate	Three Months Average Balance	Inte Div
ASSETS					
Residential real estate loans	$ 783,177	11,833	6.04%	$ 856,049	1
Commercial loans	2,592,529	36,672	5.74%	2,593,490	3
Consumer and other loans	691,190	10,640	6.24%	707,260	1

Total Loans	4,066,896	59,145	5.90%	4,156,799	6
Tax-exempt investment securities (1)	459,764	5,568	4.84%	425,283	
Taxable investment securities (2)	1,181,846	8,685	2.94%	587,091	
Total Earning Assets	5,708,506	73,398	5.21%	5,169,173	7
Goodwill and intangibles	159,851			159,341	
Non-earning assets	268,688			228,322	
Total Assets	$6,137,045			$5,556,836	
LIABILITIES					
NOW accounts	$ 716,239	733	0.41%	$ 507,950	
Savings accounts	331,676	204	0.25%	287,454	
Money market demand accounts	811,580	1,963	0.98%	759,856	
Certificate accounts	1,072,352	5,411	2.05%	913,959	
Wholesale deposits (3)	373,167	1,020	1.11%	33,545	
Advances from FHLB	802,000	2,311	1.17%	336,790	
Securities sold under agreements to repurchase and other borrowed funds	507,963	2,242	1.79%	1,269,324	
Total Interest Bearing Liabilities	4,614,977	13,884	1.22%	4,108,878	1
Non-interest bearing deposits	779,998			718,290	
Other liabilities	31,400			39,737	
Total Liabilities	5,426,375			4,866,905	
STOCKHOLDERS' EQUITY					
Common stock	628			614	
Paid-in capital	513,808			493,597	
Retained earnings	193,643			191,202	
Accumulated other comprehensive income	2,591			4,518	
Total Stockholders' Equity	710,670			689,931	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,137,045			$5,556,836	
Net interest income		$59,514			$6
Net interest spread			3.99%		
Net Interest Margin			4.23%		
Net Interest Margin (Tax-Equivalent)			4.43%		

(1) Excludes tax effect of $2,465,000 and $2,360,000 on non-taxable investment security income for the three months ended March 31, 2010 and 2009, respectively.

(2) Excludes tax effect of $312,000 and $0 on investment security tax credits for the three months ended March 31, 2010 and 2009, respectively.

(3) Wholesale deposits include brokered deposits classified as NOW, money market demand, and CDs.

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

OF OPERATIONS

RESULTS OF OPERATIONS - THE THREE MONTHS ENDED MARCH 31, 2010 COMPARED TO DECEMBER 31, 2009 AND MARCH 31, 2009

Performance Summary

The Company reported net earnings of $10.070 million for the first quarter, a decrease of $5.709 million, or 36 percent, from the $15.779 million for the first quarter of 2009. Diluted earnings per share of $0.16 for the quarter decreased 38 percent from the diluted earnings per share of $0.26 for the same quarter of 2009, reflecting the increase of 1.295 million shares, or 2 percent, in average outstanding shares on a diluted basis over last year's first quarter. Annualized return on average assets and return on average equity for the first quarter were 0.67 percent and 5.75 percent, which compares with prior year returns for the first quarter of 1.15 percent and 9.27 percent, respectively.

REVENUE SUMMARY

	Three Months ended		
(UNAUDITED - DOLLARS IN THOUSANDS)	March 31, 2010	December 31, 2009	March 31, 2009
Net interest income			
Interest income	$73,398	78,112	75,532
Interest expense	13,884	14,273	15,154
Total net interest income	59,514	63,839	60,378
Non-interest income			
Service charges, loan fees, and other fees	10,646	12,212	10,179
Gain on sale of loans	3,891	6,089	6,150
Gain on sale of investments	314	3,328	--
Other income	1,332	4,450	1,048
Total non-interest income	16,183	26,079	17,377
	$75,697	89,918	77,755
Net interest margin (tax-equivalent)	4.43%	4.70%	4.92%

(UNAUDITED - DOLLARS IN THOUSANDS)	$ Change from December 31, 2009	$ Change from March 31, 2009	% Change from December 31, 2009	%
Net interest income				
Interest income	$ (4,714)	(2,134)	-6%	
Interest expense	(389)	(1,270)	-3%	
Total net interest income	(4,325)	(864)	-7%	
Non-interest income				
Service charges, loan fees, and other fees	(1,566)	467	-13%	
Gain on sale of loans	(2,198)	(2,259)	-36%	
Gain on sale of investments	(3,014)	314	-91%	

Other income	(3,118)	284	-70%
Total non-interest income	(9,896)	(1,194)	-38%
	$(14,221)	(2,058)	-16%

n/m - not measurable

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Net Interest Income

Net interest income for the current quarter decreased $4.3 million, or 7 percent, with interest income decreasing $4.7 million, or 6 percent, compared to the prior quarter. The decrease in interest income for the current quarter was primarily the result of fewer days, a higher level of loans on non-accrual and a decrease in interest rates on investments and loans. Net interest income for the current quarter decreased $0.9 million, or 1 percent, with interest expense decreasing $1.3 million, or 8 percent, over the same period in 2009. The decrease in total interest expense from the prior year first quarter is attributable to rate decreases in interest bearing deposits and borrowings. The current quarter net interest margin as a percentage of earning assets, on a tax-equivalent basis, was 4.43 percent which is 27 basis points lower than the 4.70 percent achieved for the prior quarter, and 49 basis points lower than the 4.92 percent result for the first quarter of 2009.

Non-Interest Income

Non-interest income for the current quarter totaled $16 million, a decrease of $10 million and $1.2 million over the prior quarter and prior year first quarter, respectively. The prior quarter other income had a $3.5 million one-time bargain purchase gain from the acquisition of First National. Excluding the bargain purchase gain and gain on investments, non-interest income decreased $3.4 million, or 18 percent, from the prior quarter, and decreased $1.5 million, or 9 percent, over the same period in 2009. Fee income decreased $1.6 million, or 13 percent, from the previous quarter primarily from a decrease in non-sufficient-funds fee income, compared to an increase of $467 thousand, or 5 percent, over the same period last year. Gain on sale of loans decreased $2.2 million, or 36 percent, over the prior quarter, and $2.3 million, or 37 percent, over the same period last year, primarily the result of a significant reduction in re-finance activity and a slowing of residential loans originated and sold in the secondary market. Net gain on sale of investments was $314 thousand for the current quarter 2010 compared to $3.3 million for the previous quarter, a 91 percent decrease.

NON-INTEREST EXPENSE

	Three Months ended		
(UNAUDITED - DOLLARS IN THOUSANDS)	March 31, 2010	December 31, 2009	March 31, 2009
Compensation and employee benefits	$21,356	21,376	21,944
Occupancy and equipment expense	5,948	6,130	5,895
Advertising and promotions	1,592	1,435	1,724

Outsourced data processing	694	850	671
Core deposit intangibles amortization	820	822	774
Foreclosed asset expenses and losses	2,318	3,370	520
Federal Deposit Insurance Corporation premiums	2,200	1,940	1,168
Other expenses	7,033	8,410	6,930
Total non-interest expense	$41,961	44,333	39,626

(UNAUDITED - DOLLARS IN THOUSANDS)	$ Change from December 31, 2009	$ Change from March 31, 2009	% Change from December 31, 2009
Compensation and employee benefits	$ (20)	(588)	0%
Occupancy and equipment expense	(182)	53	-3%
Advertising and promotions	157	(132)	11%
Outsourced data processing	(156)	23	-18%
Core deposit intangibles amortization	(2)	46	0%
Foreclosed asset expenses and losses	(1,052)	1,798	-31%
Federal Deposit Insurance Corporation premiums	260	1,032	13%
Other expenses	(1,377)	103	-16%
Total non-interest expense	$(2,372)	2,335	-5%

Non-interest expense for the current quarter decreased by $2.4 million, or 5 percent from the prior quarter and increased $2.3 million, or 6 percent, from the prior year first quarter. Compensation and employee benefits decreased $588 thousand, or 3 percent, from the prior year first quarter, resulting from a decrease in commission and bonus expense and a reduction in benefits. The number of full-time equivalent employees increased from 1,643 to 1,651 during the quarter, and increased from 1,610 since the end of the first 2009 first quarter. Occupancy and equipment expense decreased $182 thousand, or 3 percent, from the prior quarter and increased $53 thousand, or 1 percent, from the prior quarter and the prior year first quarter, respectively. Advertising and promotion expense increased $157 thousand, or 11 percent, from prior quarter and decreased $132 thousand, or 8 percent, from the first quarter of 2009. Foreclosed asset expenses, losses and write-downs decreased $1.1 million, or 31 percent, and increased $1.8 million, or 346 percent, from the prior quarter and the prior year first quarter, respectively. Federal Deposit Insurance Corporation ("FDIC") premiums increased $260 thousand, or 13 percent, and increased $1.0 million, or 88 percent, from the prior quarter and the prior year first quarter, respectively, as the FDIC increased premiums and premium credits ended. The decrease of $1.4 million, or 16 percent, in other expense from the prior quarter includes $313 thousand in legal and outside service expenses, the majority of which relate to the acquisition of First National, $201 thousand in supplies and printing, $361 thousand in checking account losses.

The efficiency ratio (non-interest expense / net interest income plus non-interest income) was 55 percent for the quarter, compared to 51 percent for the 2009 first quarter. The increase in the efficiency ratio from the prior year is the result of the increase in other expenses primarily from FDIC insurance premiums and foreclosed asset expenses, losses and write-downs combined with the slowing of residential loans originated and sold on the secondary market.

Provision for Loan Losses

The current quarter provision for loan loss expense was $21 million, a decrease of $16 million from prior quarter and an increase of $5 million from the same quarter in 2009. Net charged-off loans for the current quarter were $20 million compared to $19 million for the prior quarter and $9 million for the same quarter in 2009. For the quarter, the provision covered net charge-offs 1.0 times.

The determination of the allowance for loan and lease losses ("ALLL" or "Allowance") and the related provision for loan losses is a critical accounting estimate that involves management's judgments about current environmental factors which affect loan losses, such factors including economic conditions, changes in collateral values, net charge-offs, and other factors discussed in "Additional Management's Discussion and Analysis" - Allowance for Loan and Lease Losses.

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FINANCIAL CONDITION ANALYSIS

ASSETS

(UNAUDITED - DOLLARS IN THOUSANDS)	March 31, 2010	December 31, 2009	March 31, 2009	$ Change from December 31, 2009
Cash on hand and in banks	$ 93,242	120,731	110,220	(27,489)
Investments, interest bearing deposits, FHLB stock, FRB stock, and fed funds	1,721,491	1,596,238	1,007,283	125,253
Loans				
Residential real estate	773,901	797,626	847,245	(23,725)
Commercial	2,593,266	2,613,218	2,607,655	(19,952)
Consumer and other	704,789	719,401	705,805	(14,612)
Total loans	4,071,956	4,130,245	4,160,705	(58,289)
Allowance for loan and lease losses	(143,600)	(142,927)	(83,777)	(673)
Total loans, net of allowance for loan and lease losses	3,928,356	3,987,318	4,076,928	(58,962)
Other assets	482,779	487,508	386,369	(4,729)
Total assets	$6,225,868	6,191,795	5,580,800	34,073

Total assets at March 31, 2010 were $6.226 billion, which is $34 million, or 1 percent, greater than the total assets of $6.192 billion at December 31, 2009 and an increase of $645 million, or 12 percent, over the total assets of $5.581 billion at March 31, 2009. At March 31, 2010, total loans were $4.072 billion, a decrease of $58 million over total loans of $4.130 billion at December 31, 2009 and a decrease of $89 million over total loans at March 31, 2009. Loan originations have slowed, which was the basis for the decrease in all loan categories including a decrease of $24 million, or 3 percent, in residential real estate loans, a decrease of $15 million, or 2 percent in consumer loans, and a decrease of $20 million, or 1 percent, in commercial loans since December 31, 2009. The Company's loan portfolio is further discussed in "Additional Management's Discussion and Analysis, Loan Portfolio."

Investment securities, including interest bearing deposits in other financial institutions and federal funds sold, have increased $125 million, or 8 percent, from December 31, 2009 and increased $714 million, or 71 percent, from March 31, 2009. The Company continues to purchase investment securities as loan originations slow and therefore investment securities represented 28 percent of total assets at March 31, 2010 versus 18 percent of total assets at March 31, 2009.

LIABILITIES

(UNAUDITED - DOLLARS IN THOUSANDS)	March 31, 2010	December 31, 2009	March 31, 2009	$ Change from December 31, 2009
Non-interest bearing deposits	$ 828,141	810,550	743,552	17,591
Interest bearing deposits	3,336,703	3,289,602	2,551,180	47,101
Advances from Federal Home Loan Bank	802,886	790,367	225,695	12,519
Federal Reserve Bank discount window	--	225,000	1,005,000	(225,000)
Securities sold under agreements to repurchase and other borrowed funds	248,894	226,251	205,778	22,643
Other liabilities	45,765	39,147	47,461	6,618
Subordinated debentures	125,024	124,988	120,149	36
Total liabilities	$5,387,413	5,505,905	4,898,815	(118,492)

As of