

2005
ANNUAL REPORT



GLACIER BANCORP, INC.

Corporate Headquarters

49 Commons Loop
Kalispell, MT 59901-2679
(406) 756-4200

Board of Directors

Everit A. Sliter, Chairman
CPA/Jordahl & Sliter, PLLC and Chairman of Glacier Bank

Michael J. Blodnick
President/CEO of Glacier Bancorp, Inc. (the "Company")

William L. Bouchee
CEO of First Security Bank of Missoula

James M. English
Attorney/English Law Firm, Partner of Great Sky Development, and board member of Mountain West Bank

Allen J. Fetscher
Chairman of First Security Bank of Missoula, President of Fetscher's Inc., Vice President of American Public Land Exchange Co. Inc., and owner of Associated Agency

Fred J. Flanders
Retired President of Valley Bank of Helena

Jon W. Hippler
President/CEO of Mountain West Bank

Craig A. Langel
CPA/CVA, President of Langel & Associates, P.C., owner and CEO of CLC Restaurants, Inc.

L. Peter Larson
Chairman/CEO of American Timber Company

John S. MacMillan, Chairman
Retired President/CEO of the Company

John W. Murdoch
Owner of Murdoch's Ranch & Home Supply, LLC and board member of Big Sky Western Bank

Stock Listing

Glacier Bancorp, Inc.'s common stock trades on the NASDAQ National Market System under the symbol GBCI. There are approximately 10,932 shareholders of Glacier Bancorp, Inc. stock.

Investor Information

www.glacierbancorp.com

Corporate Officers

Michael J. Blodnick
President/CEO

James H. Strosahl
EVP/CFO/Secretary/Treasurer

Mark D. MacMillan
SVP/Information Technology

Robin S. Roush
SVP/Human Resources

Marcia L. Johnson
SVP/Operations

Barry L. Johnston
SVP/Credit Administration

April D. Kelso
VP/Compliance

Sam G. Mauch
VP/Information Security

Donald B. McCarthy
VP/Controller

Glenn G. Nelson
VP/Information Technology

Ryan T. Srenar
VP/Internal Audit

Independent Registered Public Accountants

BKD LLP
1700 Lincoln Street Suite 3400
Denver, CO 80203

Legal Counsel

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

Graham & Dunn PC
Pier 70, Suite 300
2801 Alaskan Way
Seattle, WA 98121-1128

Cover photo by: Douglass Dye
Clements Mountain at Logan Pass
Glacier National Park, Montana

Glacier Bank
Main Office:
202 Main Street
Kalispell, MT 59901
(406) 756-4200

Branch Offices:
49 Commons Loop
Kalispell, MT 59901

2199 Highway 2 East
Kalispell, MT 59901

615 California Avenue
Libby, MT 59923

14 Second Ave. West
Polson, MT 59860

822 Nucleus Avenue
Columbia Falls, MT 59912

Old Town Center
Bigfork, MT 59911

3701 Harrison Avenue
Butte, MT 59701

1880 Harrison Avenue
Butte, MT 59702

307 East Park Street
Anaconda, MT 59711

Directors:
Everit A. Sliter, Chairman
Gregory A. Goode
Dallas I. Herron
Robert F. Leipheimer
David P. Meredith
Van Kirke Nelson, M.D.
Robert A. Nystuen
James H. Strosahl

Mountain West Bank
Main Office:
125 Ironwood Drive
Coeur d'Alene, ID 83814
(208) 765-0284

Branch Offices:
305 W. Prairie Avenue
Hayden, ID 83835

709 East Seltice Way
Post Falls, ID 83854

433 North 16th Street
Boise, ID 83702

80 South Cole Road
Boise, ID 83701

7107 West State Street
Boise, ID 83714

800 West Bannock St.
Boise, ID 83702

2970 East St. Lukes Drive
Meridian, ID 83642

2024 Caldwell Blvd.
Nampa, ID 83651

1223 12th Ave Rd
Nampa, ID 83651

491 Sun Valley Road East
Ketchum, ID 83340

206 North Main
Hailey, ID 83333

201 East Superior St., Suite A
Sandpoint, ID 83864

476655 Highway 95 North
Ponderay, ID 83852

7186 First Street
Bonners Ferry, ID 83805

110 South Main
Brigham City, UT 84302

1776 Park Avenue, #101
Park City, UT 84060

330 North Washington
Newport, WA 99156

223 Main Street
Ione, WA 99139

12209 E. Mission Ave. Suite 9
Spokane Valley, WA 99206

Directors:
Charles. R. Nipp, Chairman
Dennis Downer
Bradley E. Dugdale
James M. English
Thomas Gibson
Jon W. Hippler
Stephen F. Meyer
J. Michael Patano
Don Shepherd
James H. Strosahl
Thomas K. Thilo, M.D.

**First Security Bank
of Missoula**
Main Office:
1704 Dearborn
Missoula, MT 59801
(406) 728-3115

Branch Offices:
541 East Broadway
Missoula, MT 59802

3220 Great Northern Way
Missoula, MT 59808

2601 Garfield
Missoula, MT 59801

100 East Broadway
Missoula, MT 59802

320 West Broadway
Missoula, MT 59802

3045 North Reserve
Missoula, MT 59808

4055 South Highway 93
Missoula, MT 59804

501 North First Street
Hamilton, MT 59840

510 West Railroad
Plains, MT 59859

107 South Fulton
Thompson Falls, MT 59873

Directors:
Allen J. Fetscher, Chairman
Michael R. Baxter
William L. Bouchee
Scott M. Burke
Harold J. Fraser
Michael Harrington
Kathy Markette, M.D.
Walter Muralt
Kathy A. Ogren
James H. Strosahl
Christopher B. Swartley
Dennis H. Toussaint
Stanford L. Zimet

Western Security Bank
Main Office:
2929 3rd Avenue North
Billings, MT 59101
(406) 238-8100

Branch Offices:
2401 Grand Avenue
Billings, MT 59102

2675 King Avenue West
Billings, MT 59102

1546 Main Street
Billings, MT 59105

2845 Old Hardin Road
Billings, MT 59101

19 Montana Avenue
Laurel, MT 59044

401 West Main
Lewistown, MT 59457

Directors:
Ruben R. Day, Chairman
Michael J. Blodnick
Jerald D. Evenson
Lori A. Forseth, M.D.
Douglas J. McBride
John V. Negu
Russel J. Spika
James D. Walker
John O. Weber

First National Bank

Main Office:

1001 Main Street
Evanston, WY 82930
(307) 789-3864

Branch Offices:

125 North 2nd Street
Evanston, WY 82930

900 North Highway 414
Mountain View, WY 82939

716 Pine Avenue
Kemmerer, WY 83101

314 South Washington Street
Afton, WY 83110

100 Greys River Road
Alpine, WY 83128

221 East Pine Street
Pinedale, WY 82941

Directors:

Weston R. Barker, Chairman
Michael J. Blodnick
Kim Charles
Rudy Ellingford
Judson E. Faler
Gerald L. Goulding
Eddie O. Hunsaker
David D. Madia
Michael Seppala

Big Sky Western Bank

Main Office:

4150 Valley Commons
Bozeman, MT 59718
(406) 587-2922

Branch Offices:

7730 Shedhorn Drive
Bozeman, MT 59718

106 East Babcock
Bozeman, MT 59715

55 Lone Peak Drive
Big Sky, MT 59716

Directors:

George B. Hagar, Chairman
Michael J. Blodnick
Edward Brandt
Don J. Chery
Ardyce DeVries
Robyn L. Erlenbush
William Martel
O. Taylor Middleton
John W. Murdoch
Michael R. Scholz

Valley Bank of Helena

Main Office:

3030 North Montana Avenue
Helena, MT 59601
(406) 495-2400

Branch Offices:

1900 9th Avenue
Helena, MT 59601

306 Euclid Avenue
Helena, MT 59601

321 Fuller Avenue
Helena, MT 59601

3171 North Montana Avenue
Helena, MT 59602

101 Lane Avenue
East Helena, MT 59635

Directors:

John P. Poston, Chairman
Tanya M. Ask
Michael J. Blodnick
Kenneth V. Carpenter, M.D.
Cary A. Hegreberg
Ronald S. Mercer
Bruce D. Mihelish
J. Andrew O'Neill
Robert J. Peccia
Joseph F. Shevlin
Thomas J. Trebon

Glacier Bank of Whitefish

Main Office:

319 East Second Street
Whitefish, MT 59937
(406) 751-4930

Branch Office:

222 Dewey Avenue
Eureka, MT 59917

Directors:

Michael J. Gwiazdon, Chairman
Bee Gee Cole
Dale G. Duff
Sean S. Frampton
Michael T. Henry

Thomas H. LaChance
Patrice B. LaTourelle
Robert C. Love
Charles R. Newton
Russell K. Porter
James H. Strosahl

Citizens Community Bank

Main Office:

280 South Arthur
Pocatello, ID 83204
(208) 232-5373

Branch Offices:

2000 Flandro Drive
Pocatello, ID 83202

2797 South 25th East
Ammon, ID 83406

220 East 2nd North, Suite 5
Rexburg, ID 83440

Directors:

Gary N. Blanchard, Chairman
Michael J. Blodnick
Ralph G. Cottle
H. Brent Hill
Thomas J. Holmes
W. James Johnston
William A. Knick
James E. Lee
Diana B. Lyon
Kenneth A. Satterfield
Alan E. Stanek

Stock and Dividend Information

2005 Cash Dividend Data

<u>Quarter</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Share Amount</u>
1	April 12, 2005	April 21, 2005	\$0.14
2	July 12, 2005	July 21, 2005	\$0.15
3	Oct 11, 2005	Oct 20, 2005	\$0.15
4	Jan 10, 2006	Jan 19, 2006	\$0.16

Anticipated Dividend Dates 2006 (*)

<u>Quarter</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Anticipated Earnings Announcement Dates (*)</u>
1	April 11, 2006	April 20, 2006	April 26, 2006
2	July 11, 2006	July 20, 2006	July 27, 2006
3	Oct 10, 2006	Oct 19, 2006	October 26, 2006
4	Jan 9, 2007	Jan 18, 2007	February 1, 2007

(*) Subject to approval by the Board of Directors

Common Stock Price (1)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
High	\$33.50	\$28.71	\$21.12	\$14.54	\$12.33	\$8.60
Low	\$21.07	\$18.88	\$13.60	\$11.11	\$7.13	\$6.40
Close	\$30.05	\$27.23	\$20.78	\$13.71	\$12.11	\$7.13
Price/Earnings (2)	18.0	18.7	16.5	12.5	15.1	10.0

(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>
1996	\$0.18	10% Stock Dividend	May 23, 1996
1997	\$0.23	3 for 2 stock split	May 27, 1997
1998	\$0.27	10% Stock Dividend	October 1, 1998
1999	\$0.34	10% Stock Dividend	May 27, 1999
2000	\$0.34	10% Stock Dividend	May 25, 2000
2001	\$0.35	None	None
2002	\$0.39	None	None
2003	\$0.48	10% Stock Dividend	May 22, 2003
2004	\$0.54	5 for 4 stock split	May 20, 2004
2005	\$0.60	5 for 4 stock split	May 26, 2005

(1) Restated for stock dividends and stock splits.

Ten-year compound annual dividend growth rate is 14.5%.

Ten-year compound total return is 20.2%.

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 American Stock Transfer & Trust Company 1-877-390-3076 for information and to request a prospectus.

Summary of Operations and Selected Financial Data

(dollars in thousands, except per share data)	At December 31,				
	2005	2004	2003	2002	2001
Summary of Financial Condition:					
Total assets..... \$	3,706,344	3,010,737	2,739,633	2,281,344	2,085,747
Investment securities, available for sale	967,970	1,085,626	1,096,954	782,825	545,585
Loans receivable, net.....	2,397,187	1,701,805	1,430,365	1,300,653	1,322,327
Allowance for loan losses.....	(38,655)	(26,492)	(23,990)	(20,944)	(18,654)
Intangibles.....	87,114	42,315	42,816	40,011	41,771
Deposits.....	2,534,712	1,729,708	1,597,625	1,459,923	1,446,064
Advances from Federal Home Loan Bank.....	402,191	818,933	777,294	483,660	367,295
Securities sold under agreements to repurchase and other borrowed funds.....	317,222	81,215	64,986	61,293	32,585
Stockholders' equity.....	333,239	270,184	237,839	212,249	176,983
Equity per common share*.....	10.36	8.80	7.86	7.14	6.11
Equity as a percentage of total assets.....	8.99%	8.97%	8.68%	9.30%	8.49%

(dollars in thousands, except per share data)	Years ended December 31,				
	2005	2004	2003	2002	2001
Summary of Operations:					
Interest income..... \$	189,985	147,285	130,830	133,989	137,920
Interest expense.....	59,978	39,892	38,478	47,522	65,546
Net interest income.....	130,007	107,393	92,352	86,467	72,374
Provision for loan losses.....	6,023	4,195	3,809	5,745	4,525
Non-interest income.....	44,626	34,565	33,562	25,917	23,251
Non-interest expense.....	90,926	72,133	65,944	57,813	57,385
Earnings before income taxes.....	77,684	65,630	56,161	48,826	33,715
Income taxes.....	25,311	21,014	18,153	16,424	12,026
Net earnings.....	52,373	44,616	38,008	32,402	21,689
Basic earnings per common share*.....	1.67	1.46	1.26	1.10	0.80
Diluted earnings per common share*.....	1.64	1.43	1.24	1.08	0.78
Dividends declared per share*.....	0.60	0.54	0.48	0.39	0.35

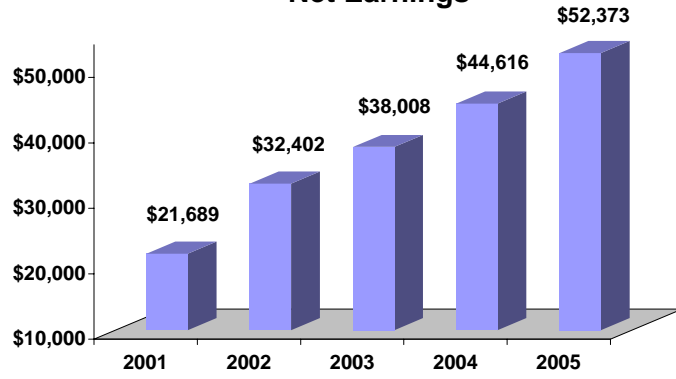
	At or for the years ended December 31,				
	2005	2004	2003	2002	2001
Ratios:					
Net earnings as a percent of					
average assets.....	1.52%	1.54%	1.53%	1.50%	1.10%
average stockholders' equity.....	17.62%	17.61%	16.82%	16.57%	13.49%
Dividend payout ratio.....	35.93%	37.36%	38.07%	35.45%	43.48%
Average equity to average asset ratio.....	8.61%	8.75%	9.10%	9.08%	8.26%
Net interest margin on average earning assets (tax equivalent).....	4.20%	4.15%	4.20%	4.51%	4.08%
Allowance for loan losses as a percent of loans.....	1.59%	1.53%	1.65%	1.58%	1.39%
Allowance for loan losses as a percent of nonperforming assets.....	383%	276%	184%	181%	165%

(dollars in thousands)	At or for the years ended December 31,				
	2005	2004	2003	2002	2001
Other Data:					
Loans originated and purchased..... \$	2,113,777	1,543,595	1,509,850	1,204,852	994,527
Loans serviced for others..... \$	145,279	174,805	189,601	253,063	286,996
Number of full time equivalent employees.....	1,125	857	807	737	728
Number of offices.....	71	55	54	50	51
Number of shareholders of record.....	1,907	1,784	1,763	1,586	1,645

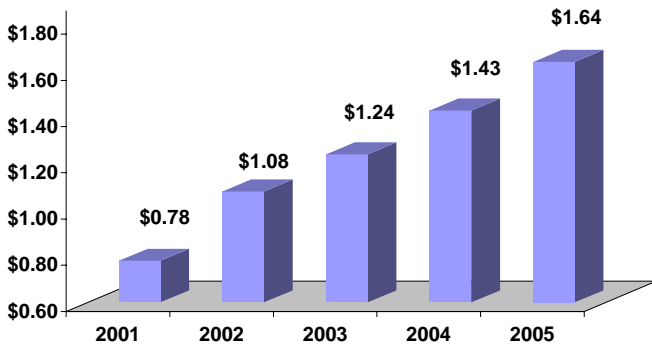
*revised for stock splits and dividends

Acquisitions using the purchase method of accounting include the operations since the acquisition date.

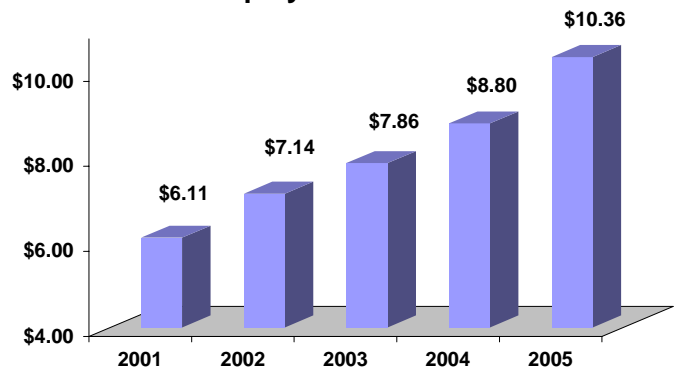
Net Earnings



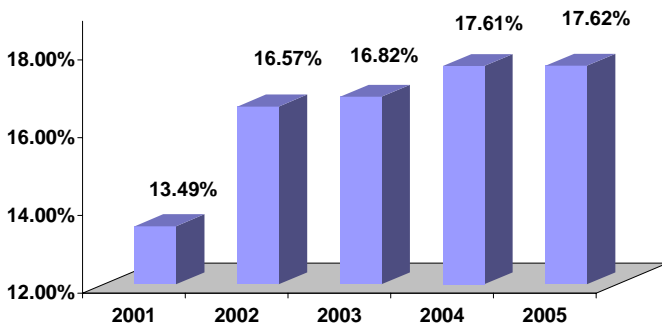
Diluted Earnings Per Share



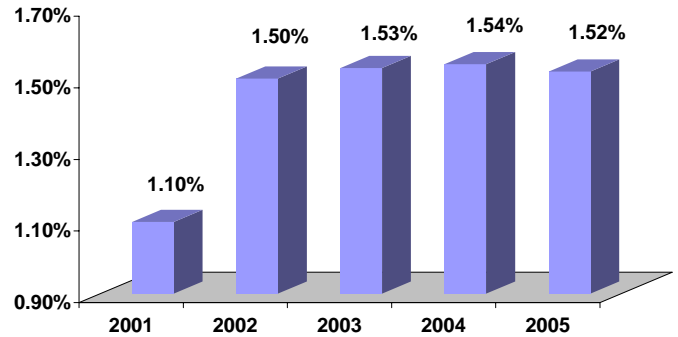
Equity Per Common Share



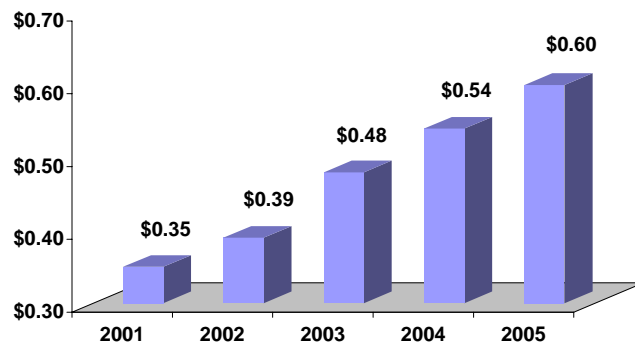
Return on Average Equity



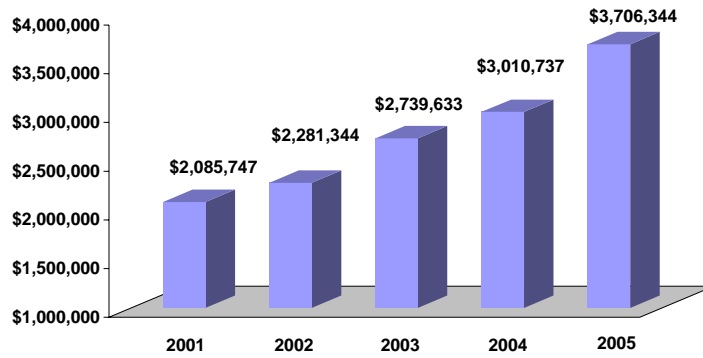
Return on Average Assets



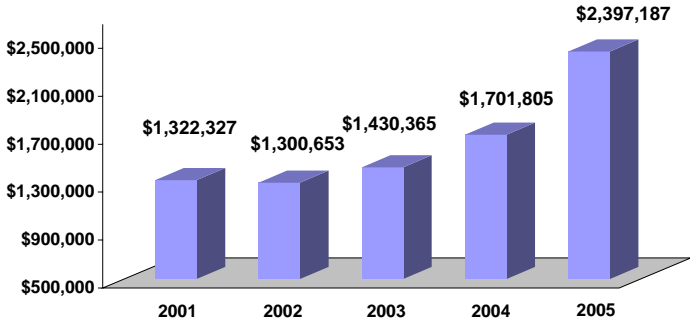
Dividends Declared per Common Share



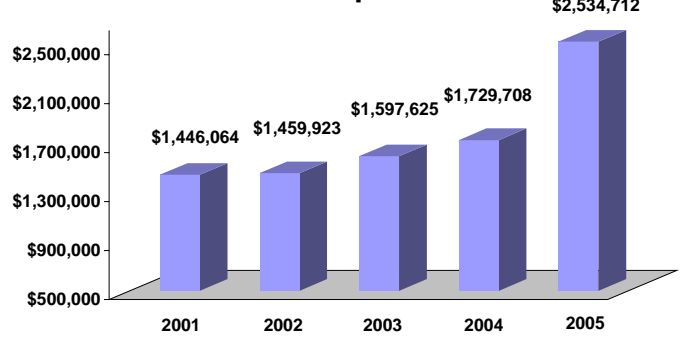
Total Assets



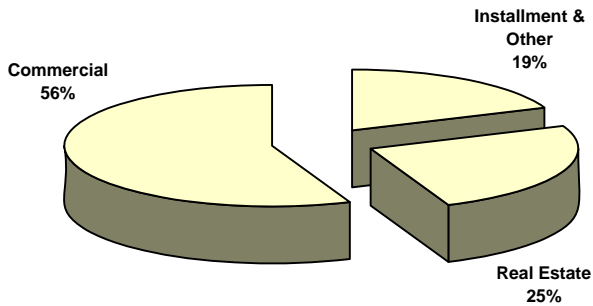
Net Loans



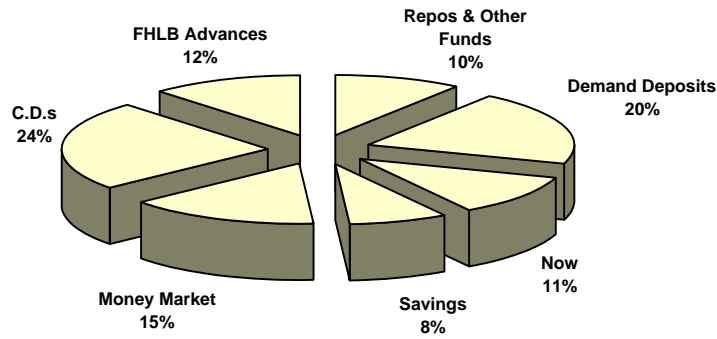
Deposits



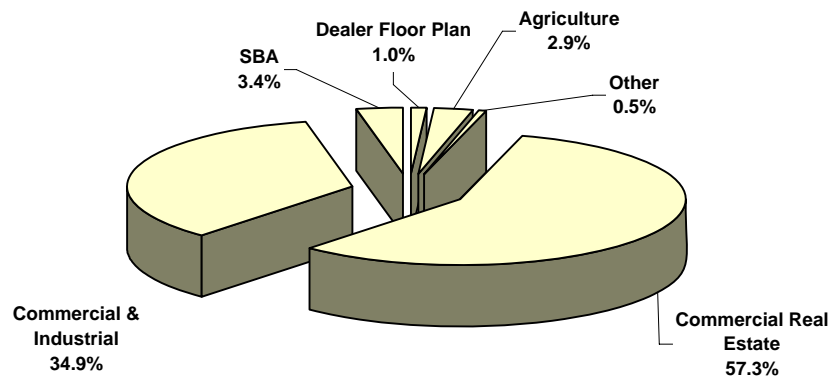
Loan Allocation



Funding Sources



Commercial Loan Mix



LETTER TO SHAREHOLDERS

Dear Shareholder,

At the beginning of each year we make an assessment of the current operating landscape for banking in general and your Company specifically. We then attempt to make projections and plans based on that environment and our expectations for the future with our attention clearly centered on the next twelve months. The strategic plan is formulated more by common sense and instinct than hard science or theory. The focus is on our core competencies and what can be done well and away from initiatives that make little sense or command resources that are unavailable. The direction the Company takes continues to be dictated by the capabilities and talents of our staff, the marketplace and the expectations and needs of our customers. This process has served us well in the past and will continue to guide us in the future.

As we develop the strategic plan it is with one goal and steadfast purpose, to create shareholder value. It has been and always will be our number one priority. Each year we set high standards for performance, expect to achieve or exceed those targets and believe greater value will be the end result. 2005 was a difficult year for bank stocks and the market in general. However, again last year the performance of Glacier Bancorp's stock produced double-digit growth in total return for our shareholders. Your Company's total return, which includes price appreciation and the cash dividend, increased 12.80%. This compares to all other banks in our asset range of \$1 to \$5 billion, which experienced a 1.71% decrease. Over the past five years this performance has been even more impressive. During this time frame the total return to our shareholders was up 386% versus 131% for banks in this same peer group. In addition, the Company's market capitalization increased from \$140 million to over \$1 billion. This year the strategic plan is equally as challenging and lofty. However, if these goals are met our long standing history of creating above average shareholder value should stay intact and continue to enhance the value proposition for your Company.

Last year Glacier Bancorp was recognized as the third highest performing bank among the top 150 largest banks and thrifts in the country by *Bank Director Magazine*. Performance was based on three criteria: profitability, capital adequacy and asset quality, three measures necessary to consistently produce top line results. This honor is a tribute to all of our employees and directors for their hard work and dedication. This level of performance would not be possible without their commitment to make your Company the best it can be.

2005 also produced double-digit growth in net earnings and earnings per share. For the third consecutive year we increased earnings per share by 15% and established a new all-time record for net earnings of \$52.373 million, or \$1.64 per share. This level of growth was stronger than we expected considering some of the issues facing the industry last year. Deposit growth that lagged earning asset growth, a flat yield curve and pricing pressure for both loans and deposits were just a few of the challenges that made for a tough operating environment. However, even though there were numerous hurdles and headwinds to contend with, our people once again rose to the challenge and attained some remarkable results.

All nine banks generated significant growth in their low-cost funding base. Last year our non-interest bearing deposits grew 45%, or \$207 million. As short-term rates continued to move upward over the past twenty months, this funding source became a critical component in the expansion of our net interest margin. The intrinsic value of these accounts is constantly being communicated through all levels of the Company. Justifiably it commands more of our time, energy and resources than any other product offered.

Mortgage originations approached \$1 billion, an all-time record eclipsing 2003, the year dominated by a wave of refinances. Three things helped drive this record growth. First, our markets continued to demonstrate strong growth and demand. Second, as the price of homes and new construction moved higher, the average size of the loans originated also increased. This was especially evident in recreational properties and some of the more sought after locations within our market. And finally, the rate environment for mortgage lending remained favorable throughout the year, helping offset some of the higher building costs and appreciation in property values. Although some of our mortgage production is placed in the portfolio, this is primarily a line of business that produces excellent fee income. Last year approximately 80% of this mortgage production was sold to investors and generated over \$11 million in fee income, an all-time record.

For the second consecutive year total loan growth far exceeded our expectations. Excluding acquisitions, loans were up 24%, another strong year for lending. Commercial and consumer loans both increased 37% and continue to benefit from a robust economy. Construction, health care, oil and gas were some of the industries posting solid gains in employment. Worldwide pressures have raised commodity prices providing incentives for increased production from the region's natural resource industries. In addition, this part of the country continues to attract a disproportionate number of retired individuals and baby boomers because of its quality of life and cost of living. We don't expect this trend to end anytime in the near term, in fact, it could accelerate. All these factors have created a healthy demand for loans. We are not planning for a third consecutive year of plus 20% loan growth, but loan volume should remain respectable in 2006.

One of the more notable accomplishments last year was the directional change in the net interest margin. After two consecutive years of compression, our margin increased in each of the four quarters and ended the year at 4.31%. Cash flow from the lower yielding security portfolio was redirected to higher yielding assets in the form of loans. This shift in the mix of our asset base coupled with the substantial growth in non-interest bearing deposits were the two main contributors to the improvement in our net interest margin. These structural changes to the balance sheet reduced investments at year end to 27% of total assets compared to 36% one year ago. Conversely loans now comprise 66% of total assets versus 57% at the end of last year.

Last year acquisition activity took center stage. Three new banks and one additional branch office joined the Glacier Bancorp family. Combined they added \$570 million in assets, \$291 million in loans and \$458 million in deposits. Most important; however, were the 193 talented individuals we were fortunate to attract and keep. Two of the banks, First National Bank – West headquartered in Evanston, Wyoming and Citizens Community Bank headquartered in Pocatello, Idaho, maintained their separate identities and charters as individual community banks. First State Bank headquartered in Thompson Falls, Montana chose to retain their name, but felt their customers and communities would be better served by aligning themselves with First Security Bank in Missoula, Montana. Finally, Mountain West Bank in Coeur d'Alene, Idaho completed the purchase and integration of a branch office in Bonners Ferry, Idaho from Zions Bancorp.

We are excited about all four new additions to the Company. Geographically and economically we are now more diverse. Plus, the southwest Wyoming and southeast Idaho markets have an assortment of businesses and industries distinct to those locations which broadens the mix of our customer base and loan portfolio. Although it has been less than a year since these institutions were acquired, they have met or exceeded our original expectations and we look for positive things from each of them in the future.

Nationwide, banks continue to benefit from a very benign level of credit quality problems. Many banks are currently enjoying loan quality not seen in decades. Fortunately we have experienced this same trend within our own loan portfolio. Non-performing loans as a percentage of assets have declined for five consecutive years. Net charge offs have decreased for four straight years. However, these trends cannot continue forever. The current credit cycle at some point will weaken and banks can expect some level of deterioration in the quality of their loans. At this point our loan loss reserve appears to be sufficient to cover potential problems. As the loan portfolio has grown significantly in recent years and certain individual credits have become larger and more complex, our reserve has been adjusted to account for these additional risks. If circumstances should change the amount of dollars provisioned may have to be adjusted up or down.

Most bad loans are made in good times and certainly during the last few years times have been good. It is our responsibility to take the necessary steps and precautions now to assure problems down the road are manageable and their impact minimal. We have strong lending policies and guidelines that must be followed. Underwriting must stay vigilant and our loan officers must avoid the trappings of the "greater fool theory" when competing for loans. The lending environment has been very good and continues to look promising. By remaining disciplined in our approach to lending we should be able to meet the credit needs of our customers while protecting shareholder value.

Our strategic plan and forecast for 2006 takes the same approach which has proven successful in the past. Challenges will be met head on. Opportunities will be explored. We hope to capitalize on our strengths and minimize any weaknesses. There are a number of exciting projects in progress and initiatives, when completed will expand capacity, reduce our exposure to risk and allow us to operate with a greater degree of efficiency.

We are currently in the process of developing and implementing an overall risk assessment plan. As shareholders you should expect all forms of risk to be mitigated whenever possible and your investment protected by operations run in a safe, sound and compliant manner. In today's banking environment risks encompass far more than the traditional credit, market and interest rate exposure of the past. Privacy, security (both physical and information), technology, compliance, regulatory and reputation are additional risks we must control. Our focus in 2006 will be to identify those areas of greatest risk to the Company and our banks and enhance monitoring and reporting systems to track those risks. In addition, internal controls will continue to be evaluated for effectiveness and changed or modified if necessary.

One example of our commitment to alleviate specific risks within the Company is our plan to have a backup computer system with complete redundancy installed in a separate location by the second quarter of 2006. This will assure a more robust disaster recovery system and provide protection against fires, floods or other types of natural disasters. Plus, as customers demand additional access to various banking channels, the duplicate systems will allow us to expand our capability and availability. The cost to purchase this type of safeguard is not inexpensive, but in today's banking world access to information is critical and the risk to our reputation if a disaster is not covered would be a far greater price to pay.

In 2006 plans are in place to open eight new offices along with significant expansion to eight existing facilities. This is the most ambitious building and construction program we have ever undertaken. In the short term some pressure will be placed on our earnings. However, strategically the new offices will extend our footprint in key markets which have attractive demographics and the additional space will allow the eight existing offices to serve more customers in a timely and efficient manner. Last year Mountain West Bank opened their first new prototype office in Hayden, Idaho. This new open design is a departure from the more traditional facilities we operate. The initial response from our customers has been very favorable and two more offices are currently under construction with this same blueprint.

As our banks aggressively pursue their de novo branching and office expansions, the focus on bank acquisitions continues. Our disciplined approach to acquisitions requires rigorous analysis. We pass on more potential acquisitions than those pursued. Each bank acquisition must fit strategically and create immediate economic value for our shareholders. Although 2005 was one of the slowest years on record in the banking industry for mergers and acquisitions, we had one of our busiest years ever. This year the prognosticators are predicting an increased level of M & A activity, especially among smaller community banks who continue to struggle with regulatory burden, compliance costs and succession issues. Factor in the attractive prices acquirers are paying for quality franchises, the need to create liquidity for their shareholders and it is reasonable to assume more community banks may choose to explore this strategic option. We continue to analyze various acquisition opportunities and look for quality banks that match our geographic footprint, have strong management, solid balance sheets and most important, have the ability to enhance our performance and make the Company stronger and more profitable.

This year we will introduce a group of new products and enhanced ways of doing business which should reduce cost and improve our productivity and efficiency. Electronic statements will allow us to deliver information to our customers faster, safer and at far less cost. Another project which would streamline our entire computing architecture is currently being analyzed. Although in its early stage of development, this new thin client architecture looks very promising not only for lowering costs, but potentially diminishing some of the risk imbedded in our decentralized structure. Implementation of our Check 21 project continues to gain momentum. Last fall First National Bank - West successfully piloted remote check image capture and electronic check clearing, two critical components to migrating to an electronic check environment. In 2006 we plan to expand our remote capture capabilities and benefit from improved funding availability and significant reduction in transportation costs. Operationally and financially Check 21 holds great promise; however, the banking industry has been slow to adopt. Recent indications point to this changing and the industry gaining traction; integrating Check 21 reforms at a much faster pace. Our plan is to continue to drive this technology and take advantage of all the benefits Check 21 creates as early as possible.

Two significant projects currently planned for this year will be the data conversions of First State Bank in April and Citizens Community Bank in October. In order to be done right with minimal impact to our customers, these data conversions require months of preplanning and a major commitment of time and resources. Once complete, both conversions will provide enhanced capabilities for our customers, more internal control over information technology and expense savings. Conversions are hard work, but we have the people who will get the job done on time and more importantly get it done right.

Over the past twenty-two years our strategic plans constantly transition to reflect the current banking environment. No two plans have ever been the same. Changes in interest rates, the economy, technology, competition and regulations have required each plan to be unique and adept. In addition, our nine banks tweak and fine tune their goals and objectives with the same level of agility. However, one objective continues to remain constant and unwavering, our commitment to our shareholders. Over 1200 dedicated individuals strive to make Glacier a better company. They devote an incredible amount of time and effort to improve the performance of their banks which ultimately assures greater value creation. The quality of the people within this Company goes a long way to ensure the future performance of your Company will stay on track and continue to produce outstanding results.

For a very long time our banks have demonstrated the ability to produce consistent top line performance. All seven of our banks who have been part of the Company for five years or longer ranked between the 87th percentile and 97th percentile in their peer group of like-type banks in pre-tax operating earnings. We expect the two latest acquisitions within the next two to three years will rise to this same level of performance. Collectively this success has generated significant returns to our shareholders. Since inception as a public company in 1984, our total return on a compounded basis has averaged 22%. Ten thousand dollars invested at that time is now worth in excess of \$639,000 and we have distributed an additional \$96,000 in cash dividends. Although the future holds no guarantees our people continue to find ways to achieve superior performance. Our strategic plan for 2006 calls for nothing less than continuing with this tradition.

Thanks to our entire staff, you are the best. The energy and enthusiasm you bring each day allows this Company to excel. To all our directors, this could not be possible without your contributions and guidance. All of you are an integral part of our continued success. And finally to our shareholders, for placing your trust and investment with us, it is greatly appreciated and never taken for granted. We will continue to work hard to justify and earn your on-going support.

Sincerely,

A handwritten signature in black ink, reading "Michael J. Blodnick". The signature is written in a cursive, flowing style with a large initial "M".

Michael J. Blodnick
President and Chief Executive Officer

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE 000-18911

GLACIER BANCORP, INC.

MONTANA 81-0519541
(State of Incorporation) (IRS Employer Identification Number)

49 Commons Loop, Kalispell, MT 59901
(Address of Principal Office)

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

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

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

Common Stock, \$.01 par value

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

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

Indicate by check mark whether the registrant (i) 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 (ii) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined by Exchange Act Rule 12b-2). Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting common equity held by non-affiliates of the Registrant at June 30, 2005 (the last business day of the most recent second quarter), was \$766,394,625 (based on the average bid and ask price as quoted on the NASDAQ National Market at the close of business on that date).

As of March 2, 2006, there were issued and outstanding 32,283,759 shares of the Registrant's common stock. No preferred shares are issued or outstanding.

Document Incorporated by Reference

Portions of the 2006 Annual Meeting Proxy Statement dated March 31, 2006 are incorporated by reference into Part III of this Form 10-K.

GLACIER BANCORP, INC.
FORM 10-K ANNUAL REPORT
For the year ended December 31, 2005
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PART I.

This Annual Report and Form 10-K may be deemed to include forward looking statements, which management believes are a benefit to shareholders. These forward looking statements describe management's expectations regarding future events and developments such as future operating results, growth in loans and deposits, continued success of the Company's style of banking and the strength of the local economy. The words "will," "believe," "expect," "should," and "anticipate" and words of similar construction are intended in part to help identify forward looking statements. Future events are difficult to predict, and the expectations described above are subject to risk and uncertainty that may cause actual results to differ materially and adversely. In addition to discussions about risks and uncertainties set forth from time to time in the Company's filings with the SEC, factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, among others, the following possibilities: (1) local, national, and international economic conditions are less favorable than expected or have a more direct and pronounced effect on the Company than expected and adversely affect the Company's ability to continue its internal growth at historical rates and maintain the quality of its earning assets; (2) changes in interest rates reduce interest margins more than expected and negatively affect funding sources; (3) projected business increases following strategic expansion or opening or acquiring new branches are lower than expected; (4) costs or difficulties related to the integration of acquisitions are greater than expected; (5) competitive pressure among financial institutions increases significantly; (6) legislation or regulatory requirements or changes adversely affect the businesses in which the Company is engaged; and (7) the Company's ability to realize the efficiencies it expects to receive from its investments in personnel and infrastructure.

Item 1. Business

GENERAL DEVELOPMENT OF BUSINESS

Glacier Bancorp, Inc. headquartered in Kalispell, Montana (the "Company"), is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation originally incorporated in 1990. The Company is a regional multi-bank holding company providing commercial banking services from 71 banking offices in Montana, Idaho, Wyoming, Utah and Washington. The Company offers a wide range of banking products and services, including transaction and savings deposits, commercial, consumer, and real estate loans, mortgage origination services, and retail brokerage services. The Company serves individuals, small to medium-sized businesses, community organizations and public entities.

Subsidiaries

The Company is the parent holding company of its twelve wholly owned subsidiaries, Glacier Bank ("Glacier"), Mountain West Bank in Idaho ("Mountain West"), First Security Bank of Missoula ("First Security"), Western Security Bank ("Western"), First National Bank – West ("First National"), Big Sky Western Bank ("Big Sky"), Valley Bank of Helena ("Valley"), Glacier Bank of Whitefish ("Whitefish"), Citizens Community Bank ("Citizens"), Glacier Capital Trust I ("Glacier Trust I"), Glacier Capital Trust II ("Glacier Trust II"), and Citizens (ID) Statutory Trust I ("Citizens Trust I"). The trusts are not consolidated for financial statement purposes.

In connection with the acquisition of Citizens on April 1, 2005, the Company acquired Citizens Trust I which was formed on June 7, 2004. On June 17, 2004, Citizens Trust I issued 5,000 preferred securities at \$1,000 per preferred security. The purchase of the securities entitles the shareholder to receive cumulative cash distributions at an annual interest rate of the three month LIBOR plus 2.65% rate adjustable quarterly from payments on the junior subordinated debentures of Glacier Bancorp, Inc. The subordinated debentures will mature and the preferred securities must be redeemed by June 17, 2034. In exchange for the Company's capital contribution, the Company owns all of the outstanding common securities of Citizens Trust I.

The Company formed Glacier Trust II as a financing subsidiary on March 24, 2004. Glacier Trust II issued 45,000 preferred securities at \$1,000 per preferred security. The purchase of the securities entitles the shareholder to receive cumulative cash distributions at an annual interest of 5.788% for the first five years and then converts to a three month LIBOR plus 2.75% rate from payments on the junior subordinated debentures of Glacier Bancorp, Inc. The subordinated debentures will mature and the preferred securities must be redeemed by April 7, 2034. In exchange for the Company's capital contribution, the Company owns all of the outstanding common securities of Glacier Trust II.

The Company formed Glacier Capital Trust I as a financing subsidiary on December 18, 2000. On January 25, 2001, Glacier Trust issued 1,400,000 preferred securities at \$25 per preferred security. The purchase of the securities entitled 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. In exchange for the Company's capital contribution, the Company owned all of the outstanding common securities of Glacier Trust I. The trust preferred securities were redeemed and the Subordinated Debentures of \$35,000,000 were paid on

February 1, 2006. The subordinated debentures were replaced by Glacier Trust III (“Glacier Trust III”), which issued \$35,000,000 in subordinated debentures with an interest rate of 6.078%.

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

Recent Acquisitions

The Company’s strategy has been to profitably grow its business through internal growth and selective acquisitions. We continue to look for profitable expansion opportunities in existing and contiguous markets. On October 31, 2005, First State Bank in Thompson Falls, Montana was acquired and its branches became part of First Security. On May 20, 2005, Zions National Bank branch office in Bonners Ferry, Idaho was acquired and became a branch of Mountain West Bank. On April 1, 2005, Citizens Bank Holding Co. and its subsidiary bank Citizens Community Bank in Pocatello, Idaho was acquired and became the ninth subsidiary bank of the Company. Citizens Community Bank operates four branches, two in Pocatello, one in Ammon, and one in Rexburg, Idaho. On February 28, 2005, First National Bank-West Co. and its subsidiary bank First National Bank – West in Evanston, Wyoming was acquired and became the eighth subsidiary bank of the Company. First National Bank – West maintains seven branches, its main and a second branch in Evanston, Wyoming, and five additional branches in Afton, Alpine, Kemmerer, Pinedale, and Mountain View, Wyoming. On June 4, 2004, we acquired AmericanWest Bancorp.’s branch office in Ione, Washington which became a branch of Mountain West Bank.

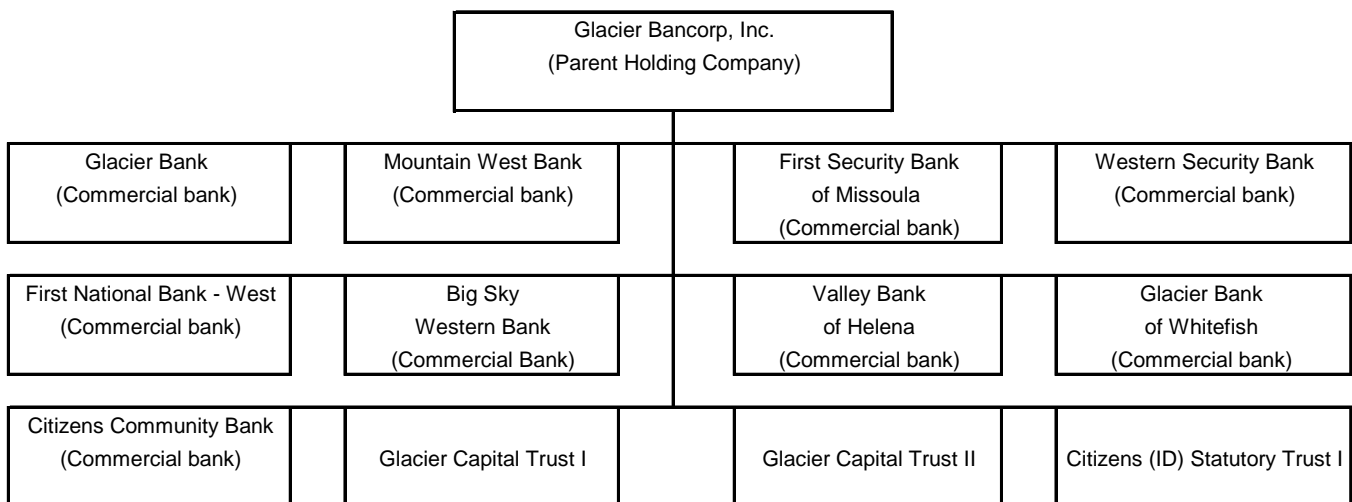
FDIC, FHLB and FRB

The Federal Deposit Insurance Corporation (“FDIC”) insures each subsidiary bank’s deposit accounts. Each subsidiary bank is a member of the Federal Home Loan Bank of Seattle (“FHLB”), which is one of twelve banks which comprise the Federal Home Loan Bank System. All subsidiaries, with the exception of Mountain West and Citizens, are members of the Federal Reserve Bank (“FRB”).

Bank Locations at December 31, 2005

Glacier Bancorp, Inc.’s office is located at 49 Commons Loop, Kalispell, MT 59901 and its telephone number is (406) 756-4200. Glacier’s address is 202 Main Street, Kalispell, MT 59901 (406) 756-4200, Mountain West’s address is 125 Ironwood Drive, Coeur d’Alene, Idaho 83814 (208) 765-0284, First Security’s address is 1704 Dearborn, Missoula, MT 59801 (406) 728-3115, Western’s address is 2929 3rd Avenue North, Billings, MT 59101 (406) 252-3700, First National Bank’s address is 1001 Main Street, Evanston, WY 82930 (307) 789-3864, Big Sky’s address is 4150 Valley Commons, Bozeman, MT, 59718 (406) 587-2922, Valley’s address is 3030 North Montana Avenue, Helena, MT 59601 (406) 495-2400, Whitefish’s address is 319 East Second Street, Whitefish, MT 59937 (406) 751-4930, and Citizen’s address is 280 South Arthur, Pocatello, ID 83204 (208) 232-5373. See “Item 2. Properties.”

The following abbreviated organizational chart illustrates the various existing parent/subsidiary relationships at December 31, 2005:



FINANCIAL INFORMATION ABOUT SEGMENTS

At December 31, 2005, the Company had nine wholly owned banking subsidiaries, Glacier, Mountain West, First Security, Western, First National, Big Sky, Valley, Whitefish, and Citizens. For information regarding the holding company, as separate from the subsidiaries, see “Item 7 - Management’s Discussion & Analysis” and footnote 16 to the Consolidated Financial Statements in “Item 8 - Financial Statements and Supplementary Data”.

The business of the Company’s subsidiaries (collectively referred to hereafter as “Banks”) consists primarily of attracting deposit accounts from the general public and originating commercial, residential, installment and other loans. The Banks’ principal sources of income are interest on loans, loan origination fees, fees on deposit accounts and interest and dividends on investment securities. The principal expenses are interest on deposits, FHLB advances, repurchase agreements, subordinated debentures, and other borrowings, as well as general and administrative expenses.

Business Segment Results

The Company evaluates segment performance internally based on individual banking subsidiaries, and thus the operating segments are so defined. The following schedule provides selected financial data for the Company’s operating segments. Centrally provided services to the Banks are allocated based on estimated usage of those services. The operating segment identified as “Other” includes the Parent company, nonbank units, and eliminations of transactions between segments.

(Dollars in thousands)

	Glacier			Mountain West			First Security		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Condensed Income Statements									
Net interest income	\$ 26,508	24,541	22,565	29,607	22,552	17,061	24,839	24,372	22,246
Noninterest income	9,136	8,652	8,184	15,812	12,315	10,206	3,990	3,684	4,392
Total revenues	35,644	33,193	30,749	45,419	34,867	27,267	28,829	28,056	26,638
Provision for loan losses	(1,500)	(1,075)	(375)	(1,897)	(1,320)	(1,124)	(630)	(600)	(1,250)
Core deposit intangible expense	(252)	(276)	(304)	(214)	(210)	(205)	(202)	(216)	(270)
Other noninterest expense	(16,016)	(14,980)	(14,283)	(26,006)	(21,290)	(17,958)	(11,141)	(10,184)	(9,766)
Pretax earnings	17,876	16,862	15,787	17,302	12,047	7,980	16,856	17,056	15,352
Income tax expense	(6,096)	(5,704)	(5,437)	(5,886)	(3,769)	(2,216)	(5,505)	(5,572)	(5,288)
Net income	\$ 11,780	11,158	10,350	11,416	8,278	5,764	11,351	11,484	10,064
Average Balance Sheet Data									
Total assets	\$ 678,782	631,213	534,774	706,711	582,923	464,464	641,311	602,407	528,791
Total loans	442,151	366,627	336,978	473,639	347,718	264,418	366,927	317,793	305,209
Total deposits	398,969	365,746	340,788	504,063	394,149	318,196	367,375	347,481	349,118
Stockholders' equity	67,513	62,230	56,866	74,357	63,710	53,071	63,231	53,247	47,822
End of Year Balance Sheet Data									
Total assets	731,468	646,523	595,778	779,538	629,205	547,035	769,094	626,341	578,803
Net loans	462,761	398,187	330,012	544,429	382,819	313,021	453,814	326,826	295,195
Total deposits	424,739	393,655	358,600	558,280	431,662	372,936	476,253	359,918	340,650
Stockholders' equity	69,257	64,207	58,703	80,008	67,002	61,031	83,447	56,004	49,334
Performance Ratios									
Return on average assets	1.74%	1.77%	1.94%	1.62%	1.42%	1.24%	1.77%	1.91%	1.90%
Return on average equity	17.45%	17.93%	18.20%	15.35%	12.99%	10.86%	17.95%	21.57%	21.04%
Efficiency ratio	45.64%	45.96%	47.44%	57.73%	61.66%	66.61%	39.35%	37.07%	37.68%
Regulatory Capital Ratios & Other									
Tier I risk-based capital ratio	11.76%	13.22%	13.75%	9.43%	10.20%	10.48%	13.25%	12.47%	12.04%
Tier II risk-based capital ratio	12.95%	14.35%	14.90%	10.63%	11.39%	11.68%	14.50%	13.72%	13.29%
Leverage capital ratio	9.34%	8.90%	8.97%	7.38%	7.16%	7.34%	10.06%	8.27%	7.80%
Full time equivalent employees	189	187	176	268	220	204	166	119	119
Locations	10	11	11	20	16	15	11	9	9

(Dollars in thousands)

	Western			First National			Big Sky		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
<u>Condensed Income Statements</u>									
Net interest income	\$ 14,522	15,663	13,670	8,179	-	-	11,540	9,361	7,264
Noninterest income	3,966	3,583	4,043	2,340	-	-	2,475	2,249	1,729
Total revenues	18,488	19,246	17,713	10,519	-	-	14,015	11,610	8,993
Provision for loan losses	-	-	-	(251)	-	-	(965)	(510)	(250)
Core deposit intangible expense	(224)	(279)	(348)	(371)	-	-	(26)	(33)	(41)
Other noninterest expense	(9,741)	(9,016)	(8,661)	(5,636)	-	-	(5,509)	(5,190)	(4,141)
Pretax earnings	8,523	9,951	8,704	4,261	-	-	7,515	5,877	4,561
Income tax expense	(2,488)	(3,039)	(2,604)	(1,401)	-	-	(2,819)	(2,157)	(1,730)
Net income	\$ 6,035	6,912	6,100	2,860	-	-	4,696	3,720	2,831
<u>Average Balance Sheet Data</u>									
Total assets	\$ 440,771	453,151	427,786	235,200	-	-	263,479	224,968	190,745
Total loans	224,213	213,487	199,607	85,723	-	-	195,547	146,579	121,080
Total deposits	222,765	214,602	220,978	189,723	-	-	164,687	120,900	106,743
Stockholders' equity	50,054	48,731	47,782	34,932	-	-	23,725	19,287	17,387
<u>End of Year Balance Sheet Data</u>									
Total assets	431,640	446,502	446,405	304,196	-	-	267,402	241,056	209,342
Net loans	231,817	210,181	196,732	111,682	-	-	203,869	161,761	125,664
Total deposits	269,494	207,711	219,950	244,336	-	-	191,040	132,853	115,496
Stockholders' equity	49,458	49,095	47,242	41,577	-	-	26,581	20,567	17,882
<u>Performance Ratios</u>									
Return on average assets	1.37%	1.53%	1.43%	1.22%	-	-	1.78%	1.65%	1.48%
Return on average equity	12.06%	14.18%	12.77%	8.19%	-	-	19.79%	19.29%	16.28%
Efficiency ratio	53.90%	48.30%	50.86%	57.11%	-	-	39.49%	44.99%	46.50%
<u>Regulatory Capital Ratios & Other</u>									
Tier I risk-based capital ratio	14.97%	15.38%	15.04%	11.59%	-	-	10.10%	9.22%	10.36%
Tier II risk-based capital ratio	16.22%	16.63%	16.30%	12.85%	-	-	11.36%	10.48%	11.61%
Leverage capital ratio	10.36%	9.67%	9.23%	6.28%	-	-	9.24%	7.88%	7.82%
Full time equivalent employees	112	110	105	87	-	-	68	59	54
Locations	7	7	7	7	-	-	4	4	4

(Dollars in thousands)

	Valley			Whitefish			Citizens		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
<u>Condensed Income Statements</u>									
Net interest income	\$ 9,444	8,959	7,845	6,527	6,393	5,194	5,013	-	-
Noninterest income	3,509	2,940	3,730	1,916	1,419	1,273	1,902	-	-
Total revenues	12,953	11,899	11,575	8,443	7,812	6,467	6,915	-	-
Provision for loan losses	(375)	(440)	(630)	(300)	(250)	(180)	(105)	-	-
Core deposit intangible expense	(48)	(60)	(75)	-	-	-	(133)	-	-
Other noninterest expense	(6,787)	(6,020)	(5,471)	(3,428)	(3,280)	(3,071)	(4,052)	-	-
Pretax earnings	5,743	5,379	5,399	4,715	4,282	3,216	2,625	-	-
Income tax (expense) benefit	(1,783)	(1,632)	(1,754)	(1,698)	(1,457)	(1,054)	(1,022)	-	-
Net income	\$ 3,960	3,747	3,645	3,017	2,825	2,162	1,603	-	-
<u>Average Balance Sheet Data</u>									
Total assets	\$ 245,486	229,243	201,702	167,704	161,364	139,516	102,341	-	-
Total loans	135,394	110,228	96,045	115,030	88,614	72,206	78,831	-	-
Total deposits	160,948	144,351	131,687	90,212	77,681	70,857	80,939	-	-
Stockholders' equity	21,201	19,188	17,837	14,763	13,129	11,652	16,977	-	-
<u>End of Year Balance Sheet Data</u>									
Total assets	254,437	241,518	219,105	174,069	169,411	149,531	144,161	-	-
Net loans	151,204	119,626	97,292	125,512	102,746	72,800	113,222	-	-
Total deposits	174,059	146,660	134,405	112,790	98,605	68,124	110,023	-	-
Stockholders' equity	21,809	20,052	18,176	14,847	13,839	12,126	23,029	-	-
<u>Performance Ratios</u>									
Return on average assets	1.61%	1.63%	1.81%	1.80%	1.75%	1.55%	1.57%	-	-
Return on average equity	18.68%	19.53%	20.44%	20.44%	21.52%	18.55%	9.44%	-	-
Efficiency ratio	52.77%	51.10%	47.91%	40.60%	41.99%	47.49%	60.52%	-	-
<u>Regulatory Capital Ratios & Other</u>									
Tier I risk-based capital ratio	11.56%	12.38%	13.25%	10.06%	11.67%	12.32%	10.35%	-	-
Tier II risk-based capital ratio	12.79%	13.62%	14.49%	11.21%	12.91%	13.57%	11.60%	-	-
Leverage capital ratio	8.00%	7.58%	7.35%	8.44%	7.75%	7.60%	9.51%	-	-
Full time equivalent employees	71	65	62	40	40	33	51	-	-
Locations	6	6	6	2	2	2	4	-	-

(Dollars in thousands)

	Other			Consolidated		
	2005	2004	2003	2005	2004	2003
<u>Condensed Income Statements</u>						
Net interest income	\$ (6,172)	(4,448)	(3,493)	130,007	107,393	92,352
Noninterest income	(420)	(277)	5	44,626	34,565	33,562
Total revenues	(6,592)	(4,725)	(3,488)	174,633	141,958	125,914
Provision for loan losses	-	-	-	(6,023)	(4,195)	(3,809)
Core deposit intangible expense	0	-	-	(1,470)	(1,074)	(1,243)
Other noninterest expense	(1,140)	(1,099)	(1,350)	(89,456)	(71,059)	(64,701)
Pretax earnings	(7,732)	(5,824)	(4,838)	77,684	65,630	56,161
Income tax (expense) benefit	3,387	2,316	1,930	(25,311)	(21,014)	(18,153)
Net income	\$ (4,345)	(3,508)	(2,908)	52,373	44,616	38,008
<u>Average Balance Sheet Data</u>						
Total assets	\$ (30,122)	11,847	(4,094)	3,451,663	2,897,116	2,483,684
Total loans	(3,414)	(346)	(356)	2,114,041	1,590,700	1,395,187
Total deposits	(19,747)	(21,615)	(11,056)	2,159,934	1,643,295	1,527,311
Stockholders' equity	(69,429)	(26,154)	(26,407)	297,324	253,368	226,010
<u>End of Year Balance Sheet Data</u>						
Total assets	(149,661)	10,181	(6,366)	3,706,344	3,010,737	2,739,633
Net loans	(1,123)	(341)	(351)	2,397,187	1,701,805	1,430,365
Total deposits	(26,302)	(41,356)	(12,536)	2,534,712	1,729,708	1,597,625
Stockholders' equity	(76,774)	(20,582)	(26,655)	333,239	270,184	237,839
<u>Performance Ratios</u>						
Return on average assets				1.52%	1.54%	1.53%
Return on average equity				17.62%	17.61%	16.82%
Efficiency ratio				52.07%	50.81%	52.37%
<u>Regulatory Capital Ratios & Other</u>						
Tier I risk-based capital ratio				12.00%	15.06%	12.98%
Tier II risk-based capital ratio				13.26%	16.31%	14.23%
Leverage capital ratio				9.17%	10.16%	8.45%
Full time equivalent employees	73	57	54	1125	857	807
Locations				71	55	54

Internet Access

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

Market Area

The Company has locations in twenty-seven counties within five states including Montana, Idaho, Wyoming, Utah, and Washington. The Company has six banking subsidiaries with forty offices that serve northwest and west central Montana. In Idaho, there are nineteen locations within two banking subsidiaries; one of which serves southeast Idaho and another serving northern and south central Idaho. In Wyoming, a subsidiary with seven locations is concentrated in southwest Wyoming. In addition to the three states the Company is domiciled in, there are five additional locations; three located in Washington and two in Utah.

The market areas' economic base primarily focuses on tourism, construction, manufacturing, service industry, and health care. The tourism industry is highly influenced by the two national parks, several ski resorts, large lakes, and rural scenic areas. Construction results from the high population growth that has occurred in the market areas, in particular Idaho and western Montana.

Competition

The Company has approximately 20% of the total FDIC insured deposits in the nine counties that it services in Montana. In Idaho, the Company has approximately 5% of the deposits in the nine counties that it services. In Wyoming, First National has 38% of the deposits in the three counties it services. In Utah, Mountain West has 6% of the deposits in Box Elder and Summit counties combined. In Washington, Mountain West has 62% of the deposits in Pend Oreille County.

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

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

Average Balance Sheet

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

	For the year ended 12-31-05			For the year ended 12-31-04			For the year ended 12-31-03		
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Average Yield/Rate
AVERAGE BALANCE SHEET									
(Dollars in Thousands)									
ASSETS									
Residential First Mortgage	\$ 508,105	34,506	6.79%	\$ 346,575	22,942	6.62%	\$ 336,494	23,883	7.10%
Commercial Loans	1,188,925	81,359	6.84%	924,798	57,312	6.20%	770,352	50,203	6.52%
Consumer and Other Loans	417,011	28,696	6.88%	319,327	20,331	6.37%	288,341	20,013	6.94%
Total Loans	2,114,041	144,561	6.84%	1,590,700	100,585	6.32%	1,395,187	94,099	6.74%
Tax-Exempt Investment Securities (1)	283,031	13,867	4.90%	281,743	13,917	4.94%	226,971	11,410	5.03%
Taxable Investment Securities	806,143	31,557	3.91%	844,051	32,783	3.88%	688,239	25,321	3.68%
Total Earning Assets	3,203,215	189,985	5.93%	2,716,494	147,285	5.42%	2,310,397	130,830	5.66%
Goodwill and Intangibles	73,640			42,597			41,292		
Non-Earning Assets	174,808			138,025			131,995		
TOTAL ASSETS	\$ 3,451,663			\$ 2,897,116			\$ 2,483,684		
LIABILITIES AND STOCKHOLDERS' EQUITY									
NOW Accounts	\$ 317,334	889	0.28%	\$ 259,279	474	0.18%	\$ 227,154	484	0.21%
Savings Accounts	209,004	1,130	0.54%	159,237	471	0.30%	139,958	500	0.36%
Money Market Demand Accounts	483,423	7,552	1.56%	402,157	3,776	0.94%	375,402	3,840	1.02%
Certificate Accounts	567,818	16,134	2.84%	422,342	9,333	2.21%	456,790	12,397	2.71%
Advances from FHLB	673,904	21,489	3.19%	791,245	18,540	2.34%	601,679	16,860	2.80%
Securities Sold Under agreements to Repurchase and Other Borrowed Funds	287,991	12,784	4.44%	181,461	7,298	4.02%	101,075	4,397	4.35%
Total Interest Bearing Liabilities	2,539,474	59,978	2.36%	2,215,721	39,892	1.80%	1,902,058	38,478	2.02%
Non-interest Bearing Deposits	582,355			400,280			328,007		
Other Liabilities	32,510			27,747			27,609		
Total Liabilities	3,154,339			2,643,748			2,257,674		
Common Stock	313			306			301		
Paid-In Capital	240,063			224,985			203,428		
Retained Earnings	53,062			22,804			14,217		
Accumulated Other Comprehensive Earnings	3,886			5,273			8,064		
Total Stockholders' Equity	297,324			253,368			226,010		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,451,663			\$ 2,897,116			\$ 2,483,684		
Net Interest Income		\$ 130,007			\$ 107,393			\$ 92,352	
Net Interest Spread			3.57%			3.62%			3.64%
Tax Equivalent Net Interest Margin			4.20%			4.15%			4.20%
Return on Average Assets (2)			1.52%			1.54%			1.53%
Return on Average Equity (3)			17.62%			17.61%			16.82%

(1) Without tax effect on non-taxable securities income

(2) Net income divided by average total assets

(3) Net income divided by average equity

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)	Years Ended December 31, 2005 vs. 2004			Years Ended December 31, 2004 vs. 2003		
	Increase (Decrease) due to:			Increase (Decrease) due to:		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income						
Real Estate Loans	\$ 10,693	\$ 871	\$ 11,564	\$ 716	\$ (1,657)	\$ (941)
Commercial Loans	16,369	7,678	24,047	10,064	(2,955)	7,109
Consumer and Other Loans	6,219	2,146	8,365	2,151	(1,833)	318
Investment Securities	(1,519)	243	(1,276)	8,092	1,877	9,969
Total Interest Income	31,762	10,938	42,700	21,023	(4,568)	16,455
Interest Expense						
NOW Accounts	106	308	414	69	(79)	(10)
Savings Accounts	147	512	659	69	(98)	(29)
Money Market Accounts	763	3,013	3,776	274	(338)	(64)
Certificate Accounts	3,215	3,587	6,802	(935)	(2,129)	(3,064)
FHLB Advances	(2,749)	5,698	2,949	5,312	(3,632)	1,680
Other Borrowings and Repurchase Agreements	4,284	1,202	5,486	3,496	(595)	2,901
Total Interest Expense	5,766	14,320	20,086	8,285	(6,871)	1,414
Net Interest Income	\$ 25,996	\$ (3,382)	\$ 22,614	\$ 12,738	\$ 2,303	\$ 15,041

Net interest income increased \$23 million in 2005 over 2004. The increase was primarily due to increases in loan volumes and loan rates which combined outpaced the increase in deposit and borrowing rates. For additional information see "Item 7 - Management's Discussion and Analysis".

INVESTMENT ACTIVITIES

It has generally been the Company's policy to maintain a liquidity portfolio only slightly above policy limits because higher yields can generally be obtained from loan originations than from short-term deposits and investment securities.

Liquidity levels may be increased or decreased depending upon yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of the level of yield that will be available in the future.

The Company's investment securities are generally classified as available for sale and are carried at estimated fair value with unrealized gains or losses reflected as an adjustment to stockholders' equity.

The Company uses an effective tax rate of 35% in calculating the tax equivalent yield. Approximately \$296 million of the investment portfolio is comprised of tax exempt investments which is a decrease of \$3 million from the prior year.

For information about the Company's equity investment in the stock of the FHLB of Seattle, see "Sources of Funds - Advances and Other Borrowings".

For additional information, see "Item 7 - Management's Discussion & Analysis" and footnote 3 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data".

LENDING ACTIVITY

General

The Banks focus their lending activity primarily on several types of loans: 1) first-mortgage, conventional loans secured by residential properties, particularly single-family, 2) installment lending for consumer purposes (e.g., auto, home equity, etc.), and 3) commercial lending that concentrates on targeted businesses. "Item 7 - Management's Discussion & Analysis" and footnote 4 to the Consolidated Financial Statements in "Item 8 - Financial Statements and Supplementary Data" contain more information about the lending portfolio.

Loan Portfolio Composition

The following table summarizes the Company's loan portfolio:

(Dollars in Thousands)	At 12/31/05		At 12/31/04		At 12/31/03		At 12/31/02		At 12/31/01	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
TYPE OF LOAN										
Real Estate Loans:										
Residential first mortgage	\$589,260	24.58%	\$382,750	22.49%	\$305,372	21.35%	\$315,043	24.22%	\$401,133	30.33%
Held for sale	\$22,540	0.94%	\$14,476	0.85%	\$16,973	1.19%	\$51,987	4.00%	\$27,403	2.07%
Total	\$611,800	25.52%	\$397,226	23.34%	\$322,345	22.54%	\$367,030	28.22%	\$428,536	32.40%
Commercial Loans:										
Real estate	\$781,181	32.59%	\$526,455	30.94%	\$483,684	33.82%	\$397,803	30.58%	\$379,346	28.69%
Other commercial	\$579,515	24.17%	\$466,582	27.42%	\$359,030	25.10%	\$276,675	21.27%	\$241,811	18.29%
Total	\$1,360,696	56.76%	\$993,037	58.36%	\$842,714	58.92%	\$674,478	51.85%	\$621,157	46.98%
Installment and Other Loans:										
Consumer	\$175,503	7.32%	\$95,663	5.62%	\$95,739	6.69%	\$112,893	8.68%	\$142,875	10.80%
Home equity	\$295,992	12.35%	\$248,684	14.61%	\$199,693	13.96%	\$174,033	13.38%	\$156,140	11.81%
Total	\$471,495	19.67%	\$344,347	20.23%	\$295,432	20.65%	\$286,926	22.06%	\$299,015	22.61%
Net deferred loan fees, premiums and discounts	(\$8,149)	-0.34%	(\$6,313)	-0.37%	(\$6,136)	-0.43%	(\$6,837)	-0.52%	(\$7,727)	-0.58%
Allowance for loan losses	(\$38,655)	-1.61%	(\$26,492)	-1.56%	(\$23,990)	-1.68%	(\$20,944)	-1.61%	(\$18,654)	-1.41%
Loans Receivable, Net	\$2,397,187	100.00%	\$1,701,805	100.00%	\$1,430,365	100.00%	\$1,300,653	100.00%	\$1,322,327	100.00%

Loan Portfolio Maturities or Repricing Term

The stated maturities or first repricing term (if applicable) for the loan portfolio at December 31, 2005 was as follows:

(Dollars in Thousands)	Real Estate	Commercial	Consumer	Totals
Variable Rate Maturing or Repricing in:				
One year or less	\$ 171,400	552,503	222,148	946,051
One to five years	144,073	375,160	16,939	536,172
Thereafter	8,452	22,395	-	30,847
Fixed Rate Maturing or Repricing in:				
One year or less	121,736	168,911	56,739	347,386
One to five years	120,362	191,301	133,250	444,913
Thereafter	45,777	50,429	42,416	138,622
Totals	<u>\$ 611,800</u>	<u>1,360,699</u>	<u>471,492</u>	<u>2,443,991</u>

Real Estate Lending

The Banks' lending activities consist of the origination of both construction and permanent loans on residential and commercial real estate. The Banks actively solicit real estate loan applications from real estate brokers, contractors, existing customers, customer

referrals, and walk-ins to their offices. The Banks' lending policies generally limit the maximum loan-to-value ratio on residential mortgage loans to 80% of the lesser of the appraised value or purchase price or above 80% of the loan if insured by a private mortgage insurance company. The Banks also provide interim construction financing for single-family dwellings. These loans are generally supported by a term take out commitment. The Banks also make lot acquisition loans to borrowers who intend to construct their primary residence on the respective lot. These loans are generally for a term of three to five years and are secured by the developed lot.

Land Acquisition and Development Loans

Where real estate market conditions warrant, the banks make land acquisition and development loans on properties intended for residential and commercial use. These loans are generally made for a term of 18 months to two years and secured by the developed property with a loan to value not to exceed 75% of cost or 80% of market value. The loans are made to borrowers with vast real estate development experience and appropriate financial strength. Generally it is required a certain percentage of the development be pre-sold or that construction and term take out commitments are in place prior to funding the loan.

Residential Builder Guidance Lines

For borrowers located in a strong real estate markets, the banks provide Builder Guidance Lines that are comprised of pre-sold and spec home construction and lot acquisition loans. The spec home construction and lot acquisition loans are limited to a set number and maximum amount. Generally the individual loans will not exceed a one year maturity. The homes under construction are inspected on a regular basis and advances made on a percentage of completion basis.

Commercial Real Estate Loans

Loans are made to purchase, construct and finance commercial real estate properties. These loans are generally made to borrowers who own and will occupy the property. Loans to finance investment or income properties are made, but require additional equity and a higher debt service coverage margin commensurate with the specific property and projected income.

Consumer Lending

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

Credit Risk Management

The Company's credit risk management includes stringent credit policies, individual loan approval limits and committee approval of larger loan requests. Management practices also includes regular internal and external credit examinations, management review of loans experiencing deterioration of credit quality, quarterly monitoring of all spec home loans, semi annual review of loans by industry and annual interest rate shock testing.

Loan Approval Limits

Individual loan approval limits have been established for each lender based on the loan type and experience of the individual. Each subsidiary bank has an Officer Loan Committee consisting of senior lenders and members of senior management. The Officer Loan Committee has approval authority up to Bank's Board of Directors loan approval authority. The Bank's Board of Directors Approval authority is \$1,000,000 at First National Bank West, \$2,000,000 at Big Sky Western Bank, Citizens Community Bank, Glacier Bank of Whitefish, Valley Bank of Helena and Western Security Bank and \$3,500,000 at First Security Bank, Glacier Bank of Kalispell and Mountain West Bank. Loans over these limits up to \$10,000,000 are approved by the Executive Loan Committee of the Company's Board of Directors. The membership of the Executive Loan Committee consists of the bank's senior loan officers and the Company's Credit Administrator. Loans greater than \$10,000,000 are approved by the Company's Board of Directors. Under banking laws loans to one borrower and related entities are limited to a set percentage of the unimpaired capital and surplus of the bank.

Loan Purchases and Sales

Fixed-rate, long-term mortgage loans are generally sold in the secondary market. The Banks are active in the secondary market, primarily through the origination of conventional, FHA and VA residential mortgages. The sale of loans in the secondary mortgage market reduces the Banks' risk of increases in interest rates of holding long-term, fixed-rate loans in the loan portfolio and allows the Banks to continue to make loans during periods when deposit flows decline or funds are not otherwise available for lending purposes. In connection with conventional loan sales, the Banks typically sell a majority of mortgage loans originated, retaining servicing only on loans sold to certain lenders. The Banks have also been very active in generating commercial SBA loans, and other commercial

loans, with a portion of those loans sold to other investors. As of December 31, 2005, loans serviced for others aggregated approximately \$145 million.

Loan Origination and Other Fees

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

Non-Performing Loans and Asset Classification

Loans are reviewed on a regular basis and are placed on a non-accrual status when the collection of principal or interest is unlikely. The Banks typically place loans on non-accrual when principal or interest is due and has remained unpaid for 90 days or more unless the loan is secured by collateral having realizable value sufficient to discharge the debt in full. Once a loan has been classified as non-accrual previously accrued unpaid interest is reversed. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate repayment of the loan.

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

NONPERFORMING ASSETS

(Dollars in Thousands)

	At 12/31/05	At 12/31/04	At 12/31/03	At 12/31/02	At 12/31/01
Non-accrual loans:					
Mortgage loans	\$726	\$847	\$1,129	\$2,476	\$4,044
Commercial loans	4,045	4,792	8,246	5,157	4,568
Consumer loans	481	311	687	409	620
Total	5,252	5,950	10,062	8,042	9,232
Accruing Loans 90 days or more overdue:					
Mortgage loans	1,659	179	379	846	818
Commercial loans	2,199	1,067	1,798	968	376
Consumer loans	647	396	242	184	243
Total	4,505	1,642	2,419	1,998	1,437
Real estate and other assets owned, net	332	2,016	587	1,542	593
Total non-performing loans and real estate and other assets owned, net	10,089	9,608	13,068	11,582	\$11,262
As a percentage of total assets	0.26%	0.32%	0.48%	0.51%	0.53%
Interest Income (1)	\$359	\$372	\$665	\$596	\$658

- (1) This is the amount of interest that would have been recorded on loans accounted for on a non-performing basis as of the end of each period if such loans had been current for the entire period.

Non-performing assets as a percentage of total assets at December 31, 2005 were .26 percent versus .32 percent at the same time last year, which compares favorably to the Peer Group average of .45 percent at September 30, 2005, the most recent information available. The reserve for loan losses was 383 percent of non-performing assets at December 31, 2005, up from 276 percent a year ago.

With the continuing change in loan mix from residential real estate to commercial and consumer loans, which historically have greater credit risk, the Company has increased the balance in the reserve for loan losses account. The reserve balance has increased \$12,163,000, or 46 percent, to \$38,655,000, which is 1.59 percent of total loans outstanding, up from 1.53 percent of loans at December 31, 2004. Of the \$12,163,000 increase, \$6,627,000 is the result of acquisitions.

Allowance for Loan Losses

The Allowance for Loan Losses (“ALL”) is maintained at a level that allows for the absorption of loan losses inherent within the bank’s loan portfolios. The Company is committed to the early recognition of problem loans and to a strong conservative allowance.

Determining the adequacy of the ALL involves a high degree of judgment and is inevitably imprecise. Accordingly, the ALL is maintained within a range based upon a best estimate. The adequacy of the ALL is based on management’s current judgment about the credit quality of the loan portfolio and considers all known relevant internal and external factors that affect loan losses. An evaluation of the adequacy of the ALL is conducted at a minimum on a quarterly basis and is documented and approved by the subsidiary Banks’ Boards of Directors and reviewed by the Company’s Board of Directors quarterly.

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

The ALL methodology is designed to reasonably estimate the probable loan and lease loss within the Bank’s loan portfolios. The methodology is based upon a process of estimating general, specific, and other allowance allocations.

- General allocations are estimated by applying loan loss rates to groups of loans as defined by Financial Accounting Standards Board (FASB) Statement No. 5 Accounting for Contingencies.
- Specific allocations are estimated for loans that are impaired or have been selected for individual review as defined by FASB Statement No. 114 Accounting by Creditors for Impairment of a Loan--an amendment of FASB Statements No. 5 and 15.
- Allocations that include other factors that warrant an increase or decrease in the ALL balance.

At a minimum, the process includes the following elements:

- Is well documented with clear explanations of the supporting analyses
- Includes an analysis of the loan portfolio whether on an individual or group basis
- Considers all known relevant internal and external factors that may affect loan losses
- Applies procedures consistently but, when appropriate, is modified for new factors
- Ensures the ALL balance is recorded in accordance with U.S. generally accepted accounting principals

The Banks’ charge-off policy is generally consistent with bank regulatory standards. Consumer loans generally are charged off when the loan becomes over 120 days delinquent. Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until such time as it is sold. When such property is acquired, it is recorded at the lower of the unpaid principal balance or estimated fair value, not to exceed estimated net realizable value. Any write-down at the time of recording real estate owned is charged to the allowance for loan losses. Any subsequent write-downs are a charge to current expenses.

Loan Loss Experience

(Dollars in Thousands)

		Years ended December 31,				
		2005	2004	2003	2002	2001
Balance at beginning of period	\$	26,492	23,990	20,944	18,654	7,799
Charge offs:						
Residential real estate		(115)	(419)	(416)	(887)	(677)
Commercial loans		(744)	(1,150)	(912)	(2,522)	(723)
Consumer loans		(539)	(776)	(1,078)	(1,328)	(2,029)
Total charge offs	\$	(1,398)	(2,345)	(2,406)	(4,737)	(3,429)
Recoveries:						
Residential real estate		82	171	126	276	33
Commercial loans		414	120	274	326	266
Consumer loans		415	361	284	680	567
Total recoveries	\$	911	652	684	1,282	866
Chargeoffs, net of recoveries		(487)	(1,693)	(1,722)	(3,455)	(2,563)
Acquisitions (1)		6,627	--	959	--	8,893
Provision		6,023	4,195	3,809	5,745	4,525
Balance at end of period	\$	38,655	26,492	23,990	20,944	18,654
Ratio of net charge offs to average loans outstanding during the period		0.02%	0.10%	0.12%	0.26%	0.20%

(1) Acquisition of First State Bank, Citizens Community Bank, First National Bank - West, Pend Oreille Bank, WesterFed Financial Corporation and several branches

Allocation of the Allowance for Loan Loss

(Dollars in thousands)	2005		2004		2003		2002		2001	
	Allowance	Percent of loans in category	Allowance	Percent of loans in category	Allowance	Percent of loans in category	Allowance	Percent of loans in category	Allowance	Percent of loans in category
Residential first mortgage and loans held for sale	\$ 4,318	25.0%	2,693	22.9%	2,147	21.8%	2,334	27.4%	2,722	31.5%
Commercial real estate	14,370	32.0%	9,222	30.3%	7,464	33.2%	7,088	30.1%	5,906	28.3%
Other commercial	12,566	23.7%	9,836	26.9%	9,951	24.7%	7,670	20.9%	6,225	18.0%
Consumer	7,401	19.3%	4,741	19.9%	4,428	20.3%	3,852	21.6%	3,801	22.2%
Totals	\$ 38,655	100.0%	26,492	100.0%	23,990	100.0%	20,944	100.0%	18,654	100.0%

SOURCES OF FUNDS

General

Deposits are the most important source of the Banks' funds for lending and other business purposes. In addition, the Banks derive funds from loan repayments, advances from the FHLB of Seattle, repurchase agreements, treasury term borrowings, and loan sales. Loan repayments are a relatively stable source of funds, while interest bearing deposit inflows and outflows are significantly influenced by general interest rate levels and money market conditions. Borrowings and advances may be used on a short-term basis to compensate for reductions in normal sources of funds such as deposit inflows at less than projected levels. They also may be used on a long-term basis to support expanded activities and to match maturities of longer-term assets. Deposits obtained through the Banks have traditionally been the principal source of funds for use in lending and other business purposes. Currently, the Banks have a number of different deposit programs designed to attract both short-term and long-term deposits from the general public by

providing a wide selection of accounts and rates. These programs include regular statement savings, interest-bearing checking, money market deposit accounts, fixed rate certificates of deposit with maturities ranging from three months to five years, negotiated-rate jumbo certificates, non-interest demand accounts, and individual retirement accounts.

“Item 7 - Management’s Discussion and Analysis” contains information relating to changes in the overall deposit portfolio.

Deposits are obtained primarily from individual and business residents of the Banks’ market area. The Banks issue negotiated-rate certificate accounts with balances of \$100,000, or more, and have paid a limited amount of fees to brokers to obtain deposits. The following table illustrates the amounts outstanding for deposits greater than \$100,000, according to the time remaining to maturity:

(Dollars in thousands)	Certificate Accounts	Demand Deposits	Totals
Within three months.....\$	235,336	912,887	1,148,223
Three months to six months.....	46,971	--	46,971
Seven months to twelve months.....	49,556	--	49,556
Over twelve months.....	39,230	--	39,230
Totals	\$ 371,093	912,887	1,283,980

For additional information, see “Item 7 - Management’s Discussion & Analysis” and footnote 7 to the Consolidated Financial Statements in “Item 8 – Financial Statements and Supplementary Data”.

In addition to funds obtained in the ordinary course of business, the Company formed Glacier Trust I and Glacier trust II as financing subsidiaries and obtained Citizens Trust I in connection with the acquisition of Citizens on April 1, 2005. Citizens Trust I issued 5,000 preferred securities at \$1,000 per preferred security. The purchase of the securities entitles the shareholder to receive cumulative cash distributions at an annual interest rate of three month LIBOR plus 2.65% rate adjustable quarterly from payments on the junior subordinated debentures of Glacier Bancorp, Inc. The subordinated debentures will mature and the preferred securities must be redeemed by June 17, 2034. In exchange for the Company’s capital contribution, the Company owns all of the outstanding common securities of Citizens Trust I. Glacier Trust II issued 45,000 preferred securities at \$1,000 per preferred security. The purchase of the securities entitles the shareholder to receive cumulative cash distributions at an annual interest of 5.788% for the first five years and then converts to a three month LIBOR plus 2.75% adjustable quarterly rate from payments on the junior subordinated debentures of Glacier Bancorp, Inc. The subordinated debentures will mature and the preferred securities must be redeemed by April 7, 2034. In exchange for the Company’s capital contribution, the Company owns all of the outstanding common securities of Glacier Trust II. The proceeds were used for general corporate purposes. Glacier Trust I issued 1,400,000 preferred securities at \$25 per preferred security. 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. In exchange for the Company’s capital contribution, the Company owns all of the outstanding common securities of the trust. The purpose of the issuance of the securities was to finance the acquisition of WesterFed Financial Corporation and seven Wells Fargo & Company and First Security Corporation branches in 2001. On February 1, 2006, the Glacier Trust I subordinated debentures were redeemed and replaced with an equal amount of junior subordinated debentures with an interest rate of 6.08%. For additional information regarding the subordinated debentures, see Note 10 and 22 to the Consolidated Financial Statements “Item 8 – Financial Statements and Supplementary Data”.

Advances and Other Borrowings

As a member of the Federal Home Loan Bank of Seattle (“FHLB”), the Banks may borrow from the FHLB on the security of stock which it is required to own in that bank and certain of its home mortgages and other assets (principally, securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. Advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution’s capital or on the FHLB’s assessment of the institution’s credit-worthiness. FHLB advances have been used from time to time to meet seasonal and other withdrawals of savings accounts and to expand lending by matching a portion of the estimated amortization and prepayments of retained fixed rate mortgages. All of the Banks are members of the FHLB.

From time to time, primarily as a short-term financing arrangement for investment or liquidity purposes, the Banks have made use of repurchase agreements with various securities dealers. This process involves the “selling” of one or more of the securities in the Banks’ portfolio and by entering into an agreement to “repurchase” that same security at an agreed upon later date. A rate of interest is paid to the dealer for the subject period of time. In addition, although the Banks have offered retail repurchase agreements to its retail customers, the Government Securities Act of 1986 imposed confirmation and other requirements which generally made it impractical for financial institutions to offer such investments on a broad basis. Through policies adopted by the Board of Directors,

the Banks enter into repurchase agreements with local municipalities, and large balance customers, and have adopted procedures designed to ensure proper transfer of title and safekeeping of the underlying securities.

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

(Dollars in thousands)	For the year ended December 31,		
	2005	2004	2003
FHLB Advances			
Amount outstanding at end of period.....	\$ 402,191	818,933	777,294
Average balance.....	\$ 673,904	791,245	601,679
Maximum outstanding at any month-end.....	\$ 804,047	862,136	777,294
Weighted average interest rate.....	3.19%	2.34%	2.80%
Repurchase Agreements:			
Amount outstanding at end of period	\$ 129,530	76,158	56,968
Average balance.....	\$ 103,522	69,480	61,609
Maximum outstanding at any month-end.....	\$ 132,534	80,265	74,808
Weighted average interest rate.....	2.85%	1.25%	1.09%

The Banks also participate in a treasury term auction program whereby when the treasury has excess funds, the Banks are able to bid on the funds. The term of the borrowings are typically less than 21 days and the interest rate is based on the Bank's bid. The following lists the outstanding treasury term borrowings:

(dollars in thousands)	December 31,		
	2005	2004	2003
Outstanding balance.....	\$ 179,000	--	--
Weighted rate.....	4.29%	--	--
Maturity date.....	Jan. 3, 2006	--	--

For additional information concerning the Company's advances and repurchase agreements, see footnotes 8 and 9 to the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data".

EMPLOYEES

As of December 31, 2005, the Company employed 1,244 persons, 1,125 of who were full time, none of whom were represented by a collective bargaining group. The Company provides its employees with a comprehensive benefit program, including medical insurance, dental plan, life and accident insurance, long-term disability coverage, sick leave, profit sharing plan and employee stock options. The Company considers its employee relations to be excellent. See Note 13 in the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data" for detailed information regarding profit sharing plan costs and eligibility.

SUPERVISION AND REGULATION

Introduction

Banking is a highly regulated industry, and banking laws and regulations are primarily intended to protect depositors, not shareholders. The following discussion identifies some of the more significant state and federal laws and regulations affecting the banking industry. It is intended only to summarize these laws and regulations and, therefore, is not complete and is qualified by the statutes and regulations referenced in the discussion.

Bank Holding Company Regulation

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended, due to its ownership of Glacier Bank, Mountain West Bank, First Security Bank of Missoula, Western Security Bank, Big Sky Western Bank, First National Bank, Valley Bank of Helena, and Glacier Bank of Whitefish, and Citizens Community Bank. All of the Banks are Montana-state chartered commercial banks, except for Mountain West Bank and Citizens Community Bank, both of which are Idaho state-chartered banks, and First National Bank–West, which is a national banking association. All of the Banks are also members of the Federal Reserve, with the exception of Mountain West Bank and Citizens Community Bank, which is a non-Fed member FDIC-insured bank. As a bank holding company, the Company is subject to regulation, supervision and examination by the Federal Reserve. In general, the Bank Holding Company Act limits the business of bank holding companies to owning or controlling banks and engaging in other activities closely related to banking. The Company must also file reports and provide additional information with the Federal Reserve. Under the Financial Services Modernization Act of 1999, a bank holding company may apply to the Federal Reserve to become a financial holding company, and thereby engage (directly or through a subsidiary) in certain expanded activities deemed financial in nature, such as securities brokerage and insurance underwriting.

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

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

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

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

Support of Subsidiary Banks. Under Federal Reserve policy, the Company is expected to act as a source of financial and managerial strength to its subsidiary Banks. This means that the Company is required to commit, as necessary, resources to support the Banks. Any capital loans a bank holding company makes to its subsidiary banks are subordinate to deposits and to certain other indebtedness of those subsidiary banks.

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

The Subsidiaries

With the exception of Mountain West Bank, Citizens Community Bank and First National Bank–West, the Company’s subsidiaries are subject to extensive regulation and supervision by the Montana Department of Commerce’s Banking and Financial Institutions Division and the FRB as a result of their membership in the Federal Reserve System. Mountain West Bank and Citizens Community Bank are subject to regulation by the Idaho Department of Finance and by the FDIC as state non-member commercial banks. In addition, Mountain West’s Utah and Washington branches are primarily regulated by the Utah Department of Financial Institutions and the Washington Department of Financial Institutions, respectively. As a national banking association with its home office in Wyoming, First National Bank–West is subject to regulation by the Office of the Comptroller of the Currency (“OCC”) and, to a certain extent, the Wyoming Division of Banking.

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

Community Reinvestment. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their jurisdiction, federal bank regulators must evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those banks. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility.

Insider Credit Transactions. Banks are also subject to certain restrictions on extensions of credit to insiders--executive officers, directors, principal shareholders, and their related interests. Extensions of credit to insiders must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are not less stringent than those prevailing at the time for comparable transactions with non-insiders. Also, extensions of credit to insiders must not involve more than the normal risk of repayment or present other unfavorable features.

Safety and Soundness Standards. Federal law imposes upon banks certain non-capital safety and soundness standards. These standards cover, among other things, internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation and benefits. Additional standards apply to asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to its regulators, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") permits nationwide interstate banking and branching under certain circumstances. This legislation generally authorizes interstate branching and relaxes federal law restrictions on interstate banking. Currently, bank holding companies may purchase banks in any state, and states may not prohibit such purchases. Additionally, banks are permitted to merge with banks in other states as long as the home state of neither merging bank has opted out. The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area.

Federal bank regulations prohibit banks from using their interstate branches primarily for deposit production and have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

With regard to interstate bank mergers, Montana "opted-out" of the Interstate Act. Subject to certain conditions, an in-state bank that has been in existence for at least 5 years may merge with an out-of-state bank. Banks, bank holding companies, and their respective subsidiaries cannot acquire control of a bank located in Montana if, after the acquisition, the acquiring institution, together with its affiliates, would directly or indirectly control more than 22% of the total deposits of insured depository institutions and credit unions located in Montana. Montana law does not authorize the establishment of a branch bank in Montana by an out-of-state bank.

Idaho has enacted "opting in" legislation in accordance with the Interstate Act provisions allowing banks to engage in interstate merger transactions subject to certain "aging" requirements. Branches may not be acquired or opened separately in Idaho by an out-of-state bank, but once an out-of-state bank has acquired a bank within Idaho, either through merger or acquisition of all or substantially all of the bank's assets, the out-of-state bank may open additional branches within Idaho.

Utah and Washington have each enacted "opting in" legislation similar in certain respects to that enacted by Idaho, allowing banks to engage in interstate merger transactions subject to certain aging requirements. Under Utah law, an out-of-state bank may acquire a bank branch located in Utah, but it may not establish a de novo branch in Utah if its home state does not have reciprocal laws on de novo branching. Under Washington law, an out-of-state bank may, subject to the Director's approval, open de novo branches in Washington or acquire an in-state branch so long as the home state of the out-of-state bank has reciprocal laws with respect to de novo branching or branch acquisitions

Under Wyoming law, banks located in Wyoming may be acquired by out-of-state banks so long as (1) with certain exceptions, the resulting bank and its affiliates would not control 30% or more of the total deposits held by all insured depository institutions in Wyoming, and (2) the in-state bank has been in existence for at least three years. Branches may not be acquired or opened separately in Wyoming by an out-of-state bank, but once an out-of-state bank has acquired a bank within Wyoming, either through merger or acquisition of all or substantially all of the bank's assets, the out-of-state bank may open additional branches within Wyoming.

Deposit Insurance

The deposits of the Banks are currently insured to a maximum of \$100,000 per depositor (in some instances up to \$100,000 per deposit account, depending on the ownership category of the account) through the Bank Insurance Fund (“BIF”) administered by the FDIC. All insured banks are subject to semi-annual deposit insurance premium assessments by the FDIC. The FDIC has implemented a risk-based insurance premium system under which banks are assessed insurance premiums based on how much risk they present to the Bank Insurance Fund. Banks with higher levels of capital and a low degree of supervisory concern are assessed lower premiums than banks with lower levels of capital or a higher degree of supervisory concern. Under the Federal Deposit Insurance Reform Act of 2005, the Bank Insurance Fund will be merged with the Savings Association Insurance Fund into a new Deposit Insurance Fund, and the maximum deposit insurance amounts will be subject to inflation adjustments every five years, commencing April, 2010.

Dividends

The principal source of the Company’s cash revenues is dividends received from the Company’s subsidiary Banks. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. State laws and, in the case of First National Bank – West, the OCC, also limit a bank’s ability to pay dividends.

Capital Adequacy

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

Tier I and Tier II Capital. Under the guidelines, an institution’s capital is divided into two broad categories, Tier I capital and Tier II capital. Tier I capital generally consists of common shareholders’ equity, surplus and undivided profits. Tier II capital generally consists of the allowance for loan losses, hybrid capital instruments, and subordinated debt. The sum of Tier I capital and Tier II capital represents an institution’s total capital. The guidelines require that at least 50% of an institution’s total capital consist of Tier I capital.

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

Leverage Ratio. The guidelines also employ a leverage ratio, which is Tier I capital as a percentage of total assets, less intangibles. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. The minimum leverage ratio is 3%; however, for all but the most highly rated bank holding companies and for bank holding companies seeking to expand, regulators expect an additional cushion of at least 1% to 2%.

Prompt Corrective Action. Under the guidelines, an institution is assigned to one of five capital categories depending on its total risk-based capital ratio, Tier I risk-based capital ratio, and leverage ratio, together with certain subjective factors. The categories range from “well capitalized” to “critically undercapitalized.” Institutions that are “undercapitalized” or lower are subject to certain mandatory supervisory corrective actions.

Corporate Governance and Accounting Legislation

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (“SOX”) addresses corporate and accounting fraud. SOX establishes an accounting oversight board to enforce auditing standards and restricts the scope of services that accounting firms may provide to their public company audit clients. Among other things, SOX also (i) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the Securities and Exchange Commission (the “SEC”); (ii) imposes new disclosure requirements regarding internal controls, off-balance-sheet transactions, and pro forma (non-GAAP) disclosures; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; and (iv) requires companies to disclose whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one “audit committee financial expert.”

SOX also requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings. To deter wrongdoing, SOX: (i) subjects bonuses issued to top executives to disgorgement if a restatement of a company's financial statements was due to corporate misconduct; (ii) prohibits an officer or director from misleading or coercing an auditor; (iii) prohibits insider trades during pension fund "blackout periods"; (iv) imposes new criminal penalties for fraud and other wrongful acts; and (v) extends the period during which certain securities fraud lawsuits can be brought against a company or its officers.

As a publicly reporting company, we are subject to the requirements of SOX and related rules and regulations issued by the SEC and NASDAQ. We anticipate that we will incur additional expense, including ongoing compliance with Section 404, as a result of SOX, but we do not expect that such compliance will have a material impact on our business.

Anti-Terrorism Legislation

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("Patriot Act") is intended to combat terrorism. Among other things, the Patriot Act (1) prohibits banks from providing correspondent accounts directly to foreign shell banks; (2) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals (3) requires financial institutions to establish an anti-money-laundering compliance program, and (4) generally eliminates civil liability for persons who file suspicious activity reports. The Patriot Act also increases governmental powers to investigate terrorism, including expanded government access to account records. The Department of the Treasury is empowered to administer and make rules to implement the Patriot Act. While the Patriot Act may, to some degree, affect the Company's record-keeping and reporting expenses, the Company does not believe that the Patriot Act will have a material adverse effect on its business and operations.

Financial Services Modernization

Gramm-Leach-Bliley Act of 1999. The Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act, brought about significant changes to the laws affecting banks and bank holding companies. Generally, the Act (i) repealed the historical restrictions on preventing banks from affiliating with securities firms, (ii) provided a uniform framework for the activities of banks, savings institutions and their holding companies, (iii) broadened the activities that may be conducted by national banks and banking subsidiaries of bank holding companies, (iv) provided an enhanced framework for protecting the privacy of consumer information and (v) addressed a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

Bank holding companies that qualify and elect to become financial holding companies can engage in a wider variety of financial activities than permitted under previous law, particularly with respect to insurance and securities underwriting activities. In addition, in a change from previous law, bank holding companies will be in a position to be owned, controlled or acquired by any company engaged in financially related activities, so long as the company meets certain regulatory requirements. The act also permits national banks (and, in states with wildcard statutes, certain state banks), either directly or through operating subsidiaries, to engage in certain non-banking financial activities.

We do not believe that the Gramm-Leach-Bliley Act will negatively affect our operations in the short term. However, to the extent the legislation permits banks, securities firms and insurance companies to affiliate, the financial services industry may experience further consolidation. This consolidation could result in a growing number of larger financial institutions that offer a wider variety of financial services than we currently offer, and these companies may be able to aggressively compete in the markets we currently serve.

Effects of Government Monetary Policy

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

TAXATION

Federal Taxation

The Company files a consolidated federal tax return, using the accrual method of accounting. All required tax returns have been filed.

Financial institutions are subject to the provisions of the Internal Revenue Code of 1986, as amended in the same general manner as other corporations. See note 12 to the Consolidated Financial Statements in “Item 8 – Financial Statements and Supplementary Data” for additional information.

State Taxation

Under Montana, Idaho and Utah law, financial institutions are subject to a corporation tax, which incorporates or is substantially similar to applicable provisions of the Internal Revenue Code. The corporation tax is imposed on federal taxable income, subject to certain adjustments. State taxes are incurred at the rate of 6.75% in Montana, 7.6% in Idaho, and 5% in Utah. Wyoming and Washington do not impose a corporate tax.

Item 1a. Risk Factors

Our business exposes us to certain risks. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results.

Fluctuating interest rates can adversely affect our profitability

Our profitability is dependent to a large extent upon net interest income, which is the difference (or “spread”) between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread, and, in turn, our profitability. We cannot assure you that we can minimize our interest rate risk. In addition, interest rates also affect the amount of money we can lend. When interest rates rise, the cost of borrowing also increases. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume, business and prospects. For discussion concerning Net Interest Income Simulation see “Item 7 – Management Discussion & Analysis”.

Our allowance for loan losses may not be adequate to cover actual loan losses, which could adversely affect our earnings

We maintain an allowance for loan losses in an amount that we believe is adequate to provide for losses inherent in the portfolio. While we strive to carefully monitor credit quality and to identify loans that may become nonperforming, at any time there are loans included in the portfolio that will result in losses, but that have not been identified as nonperforming or potential problem loans. We cannot be sure that we will be able to identify deteriorating loans before they become nonperforming assets, or that we will be able to limit losses on those loans that are identified. As a result, future additions to the allowance may be necessary. Additionally, future additions to the allowance may be required based on changes in the composition of the loans comprising the portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions, or as a result of incorrect assumptions by management in determining the allowance. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review our allowance for loan losses. These regulatory agencies may require us to increase the allowance for loan losses which could have a negative effect on our financial condition and results of operation.

Our loan portfolio mix could result in increased credit risk in an economic downturn

Our loan portfolio contains a high percentage of commercial, commercial real estate, real estate acquisition and development loans in relation to our total loans and total assets. These types of loans generally are viewed as having more risk of default than residential real estate loans or certain other types of loans or investments. In fact, the Federal Deposit Insurance Corporation recently issued a pronouncement alerting banks to their concern about banks with a heavy concentration of commercial real estate loans. These types of loans also typically are larger than residential real estate loans and other commercial loans. Because the loan portfolio contains a significant number of commercial and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in: a loss of earnings from these loans; an increase in the provision for loan losses; or an increase in loan charge-offs, which could have an adverse impact on our results of operations and financial condition.

Competition in our market area may limit our future success

Commercial banking is a highly competitive business. We compete with other commercial banks, savings and loan associations,

credit unions and finance companies operating in our market area. We are subject to substantial competition for loans and deposits from other financial institutions. Some of our competitors are not subject to the same degree of regulation and restriction as we are. Some of our competitors have greater financial resources than we do. If we are unable to effectively compete in our market area, our business and results of operations could be adversely affected.

Item 1b. Unresolved Staff Comments

None

Item 2. Properties

At December 31, 2005, the Company owned 53 of its 71 offices, including its headquarters and other property having an aggregate book value of approximately \$58 million, and leased the remaining branches. 8 offices are leased in Montana, 6 offices are leased in Idaho, 2 offices are leased in Wyoming, 1 office is leased in Utah, and 1 office is leased in Washington. The following schedule provides property information for the Company's operating segments as of December 31, 2005.

(dollars in thousands)	Properties Leased	Properties Owned	Net Book Value
Glacier	2	8	\$ 7,738
Mountain West	7	13	13,760
First Security	3	8	9,137
Western	1	6	4,592
First National	2	5	3,263
Big Sky	1	3	8,694
Valley	1	5	4,178
Whitefish	-	2	3,016
Citizens	1	3	3,150
	18	53	\$ 57,528

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

For additional information concerning the Company's premises and equipment and lease obligations, see Note 5 and 19 to the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data".

Item 3. Legal Proceedings

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

Item 4. Submission of Matter to a Vote of Security Holders

No matters were submitted to a vote of security holders in the fourth quarter of 2005.

PART II

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

The Company's stock trades on the NASDAQ National Market under the symbol: GBCI. The primary market makers are: D.A. Davidson & Co., Inc., Goldman, Sachs & Co., Keefe, Bruyette & Woods, Inc., Knight Equity Markets, L.P., and Morgan Stanley & Co., Inc.

The market range of high and low bid prices for the Company's common stock for the periods indicated are shown below. The sale price information has been adjusted retroactively for all stock dividends and splits previously issued. As of December 31, 2005, there were approximately 10,932 shareholders of Company common stock. Following is a schedule of quarterly common stock price ranges:

Quarter	2005		2004	
	High	Low	High	Low
First.....	\$ 27.98	\$ 23.59	\$ 21.63	\$ 18.88
Second.....	\$ 26.39	\$ 21.07	\$ 22.60	\$ 19.59
Third.....	\$ 31.40	\$ 25.91	\$ 24.28	\$ 20.60
Fourth.....	\$ 33.50	\$ 28.00	\$ 28.71	\$ 23.12

The Company paid cash dividends on its common stock of \$.60 and \$.54 per share for the years ended December 31, 2005 and 2004, respectively.

Unregistered Securities

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

Issuer Stock Purchases

The Company made no stock repurchases during 2005.

Equity Compensation Plan Information

We currently maintain two compensation plans that provide for the issuance of the Company's common stock to officers and other employees, directors and consultants. These consist of the 1994 Director Stock Option Plan, amended, and the 2005 Employee Stock Incentive Plan, each of which have been approved by the shareholders. In addition, there are outstanding options issued under the 1995 Employee Stock Option Plan that has expired. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 31, 2005:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants, and rights (1)	Weighted-average exercise price of outstanding options, warrants, and rights	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by the shareholders	1,670,400	\$18.580	3,757,156
Equity compensation plans not approved by shareholders	-	\$0	-

(1) Includes shares to be issued upon exercise of options under plans of Mountain West Bank and WesterFed, which were assumed as a result of their acquisitions.

Item 6. Selected Financial Data

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

Summary of Operations and Selected Financial Data

		At December 31,				
(dollars in thousands, except per share data)		2005	2004	2003	2002	2001
Summary of Financial Condition:						
Total assets.....	\$	3,706,344	3,010,737	2,739,633	2,281,344	2,085,747
Investment securities, available for sale		967,970	1,085,626	1,096,954	782,825	545,585
Loans receivable, net.....		2,397,187	1,701,805	1,430,365	1,300,653	1,322,327
Allowance for loan losses.....		(38,655)	(26,492)	(23,990)	(20,944)	(18,654)
Intangibles.....		87,114	42,315	42,816	40,011	41,771
Deposits.....		2,534,712	1,729,708	1,597,625	1,459,923	1,446,064
Advances from Federal Home Loan Bank.....		402,191	818,933	777,294	483,660	367,295
Securities sold under agreements to repurchase and other borrowed funds.....		317,222	81,215	64,986	61,293	32,585
Stockholders' equity.....		333,239	270,184	237,839	212,249	176,983
Equity per common share*.....		10.36	8.80	7.86	7.14	6.11
Equity as a percentage of total assets.....		8.99%	8.97%	8.68%	9.30%	8.49%
		Years ended December 31,				
(dollars in thousands, except per share data)		2005	2004	2003	2002	2001
Summary of Operations:						
Interest income.....	\$	189,985	147,285	130,830	133,989	137,920
Interest expense.....		59,978	39,892	38,478	47,522	65,546
Net interest income.....		130,007	107,393	92,352	86,467	72,374
Provision for loan losses.....		6,023	4,195	3,809	5,745	4,525
Non-interest income.....		44,626	34,565	33,562	25,917	23,251
Non-interest expense.....		90,926	72,133	65,944	57,813	57,385
Earnings before income taxes.....		77,684	65,630	56,161	48,826	33,715
Income taxes.....		25,311	21,014	18,153	16,424	12,026
Net earnings.....		52,373	44,616	38,008	32,402	21,689
Basic earnings per common share*.....		1.67	1.46	1.26	1.10	0.80
Diluted earnings per common share*.....		1.64	1.43	1.24	1.08	0.78
Dividends declared per share*.....		0.60	0.54	0.48	0.39	0.35
		At or for the years ended December 31,				
		2005	2004	2003	2002	2001
Ratios:						
Net earnings as a percent of						
average assets.....		1.52%	1.54%	1.53%	1.50%	1.10%
average stockholders' equity.....		17.62%	17.61%	16.82%	16.57%	13.49%
Dividend payout ratio.....		35.93%	37.36%	38.07%	35.45%	43.48%
Average equity to average asset ratio.....		8.61%	8.75%	9.10%	9.08%	8.26%
Net interest margin on average earning assets (tax equivalent).....		4.20%	4.15%	4.20%	4.51%	4.08%
Allowance for loan losses as a percent of loans.....		1.59%	1.53%	1.65%	1.58%	1.39%
Allowance for loan losses as a percent of nonperforming assets.....		383%	276%	184%	181%	165%
		At or for the years ended December 31,				
(dollars in thousands)		2005	2004	2003	2002	2001
Other Data:						
Loans originated and purchased.....	\$	2,113,777	1,543,595	1,509,850	1,204,852	994,527
Loans serviced for others.....	\$	145,279	174,805	189,601	253,063	286,996
Number of full time equivalent employees.....		1,125	857	807	737	728
Number of offices.....		71	55	54	50	51
Number of shareholders of record.....		1,907	1,784	1,763	1,586	1,645

*revised for stock splits and dividends

Acquisitions using the purchase method of accounting include the operations since the acquisition date.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations Year ended December 31, 2005 Compared to December 31, 2004

The following discussion is intended to provide a more comprehensive review of the Company's operating results and financial condition than can be obtained from reading the Consolidated Financial Statements alone. The discussion should be read in conjunction with the audited financial statements and the notes thereto included later in this report. All numbers, except per share data, are expressed in thousands of dollars.

Highlights and Overview

During the past year the Company acquired three banks and a branch that combined accounted for an increase in total assets of \$570 million, net loans of \$291 million, and deposits of \$458 million. The acquisitions resulted in two new subsidiaries that are strategically located in southwest Wyoming and southeast Idaho and additional branches that merged into existing subsidiaries located in western Montana and Northern Idaho. The acquisitions resulted in additional goodwill of \$42 million and core deposit intangibles of \$5 million.

The Company experienced strong loan growth with total loans outstanding increasing by \$708 million, or 41 percent from the prior year. Without the acquisition, loans increased \$417 million, or 24 percent. All loan classifications experienced increases with commercial loan growth leading the way with an increase of \$366 million, or 37 percent. Real estate loans increased \$214 million, or 55 percent, and consumer loans increased by \$127 million, or 37 percent. Due to the continuing reduction in spreads on funding costs versus investment returns, the cash flow from investments were used to fund loans. Investments declined \$118 million, or 11% from prior year.

Non-interest bearing deposits increased \$207 million or 45 percent during the year providing a stable low-cost funding source for a portion of the asset growth. The Company also increased interest bearing deposits by \$598 million or 47 percent, of which \$165 million was in the form of brokered CDs. \$179 million of the \$183 increase in other borrowed funds is from the treasury term auction borrowings that are a temporary funding source when the Treasury has excess funds available. The increase in deposits and other borrowed funds has allowed the Company to reduce its funding with the Federal Home Loan Bank by \$417 million, which typically has a higher interest rate than other sources.

Increases in short term interest rates by the Federal Reserve Board during 2005 have resulted in higher yields on loans and sources of funding. The increase in loan volumes, higher loan rates, and the increase in non-interest bearing deposits, resulted in an increase in net interest income of \$23 million or 21 percent over the prior year.

The Company also increased non-interest income by \$10 million primarily the result of the increase in the loan and deposit portfolios and the high volume of residential loans sold. Mortgage loans sold during 2005 increased \$163 million, or 56 percent, which contributed to the \$3 million or 38 percent increase on gain in sale of loans sold.

Non-interest expense increased \$19 million, or 26%, from last year with the largest increase occurring in compensation and benefits. Additional locations and related staffing and merit increases were the primary reasons for this increase. Other operating expenses also increased reflecting the increased volume of activities in loan and deposit operations and the bank acquisitions.

Looking forward, our future performance will depend on many factors including economic conditions, interest rate changes, increasing competition for deposits and quality loans, and regulatory burden. Increasing interest rates slow the volume of real estate loan originations which reduces the fee income from that activity while at the same time reducing commission expense for loan originators. Increasing rates result in increased earnings on assets, however, the cost of interest bearing funds also increases. The Company goal of asset and liability management practices is to maintain or increase the level of net interest income within an acceptable level of interest rate risk.

Financial Condition

Assets

The results of operations and financial condition include the acquisitions from the completion dates forward. The following table provides information on selected classifications of assets and liabilities acquired:

(Unaudited - \$ in thousands)	<u>Total</u>	<u>First National Bank</u>	<u>Citizens Community Bank</u>	<u>Bonnors Ferry Branch</u>	<u>First State Bank</u>
Acquisition Date		Feb. 28, 2005	April 1, 2005	May 20, 2005	Oct. 31, 2005
Total assets	\$ 569,980	267,126	126,394	23,868	152,592
Investments	154,517	124,733	7,916	-	21,868
Net loans	290,828	87,678	89,240	5,047	108,863
Non-interest bearing deposits	148,499	95,053	25,789	6,073	21,584
Interest bearing deposits	309,929	129,697	75,008	17,777	87,447

The following table summarizes the asset balances as of December 31, 2005 and 2004, the amount of change, and percentage change during 2005:

Assets (\$ in thousands)	<u>December 31,</u>		<u>\$ change</u>	<u>% change</u>
	<u>2005</u>	<u>2004</u>		
Cash on hand and in banks	\$ 111,418	\$ 79,300	\$ 32,118	41%
Investments, interest bearing deposits, FHLB stock, FRB stock, and Fed Funds	991,246	1,098,633	(107,387)	-10%
Loans:				
Real estate	607,627	393,141	214,486	55%
Commercial	1,357,051	991,081	365,970	37%
Consumer	471,164	344,075	127,089	37%
Total loans	<u>2,435,842</u>	<u>1,728,297</u>	<u>707,545</u>	<u>41%</u>
Allowance for loan losses	<u>(38,655)</u>	<u>(26,492)</u>	<u>(12,163)</u>	<u>46%</u>
Total loans net of allowance for loan losses	<u>2,397,187</u>	<u>1,701,805</u>	<u>695,382</u>	<u>41%</u>
Other assets	<u>206,493</u>	<u>130,999</u>	<u>75,494</u>	<u>58%</u>
Total Assets	<u><u>\$ 3,706,344</u></u>	<u><u>\$ 3,010,737</u></u>	<u><u>\$ 695,607</u></u>	<u><u>23%</u></u>

At December 31, 2005 total assets were \$3.706 billion, which is \$696 million greater than the December 31, 2004 assets of \$3.011 billion, an increase of 23 percent. Without \$570 million in assets acquired in acquisitions, total assets were up \$126 million from a year ago, or 4 percent.

Total loans have increased \$708 million from December 31, 2004, or 41 percent, with the growth occurring in all loan categories. Commercial loans have increased \$366 million, or 37 percent, real estate loans gained \$214 million, or 55 percent, and consumer loans grew by \$127 million, or 37 percent. Acquisitions added \$291 million of the total with internal growth contributing \$417 million, a 24 percent increase.

Investment securities, including interest bearing deposits in other financial institutions, and federal funds sold have decreased \$107 million from December 31, 2004. Without the acquisitions, investments would have declined \$262 million, or 24 percent, from December 31, 2004. Investment securities at year end represented 27% of total assets versus 36% the prior year.

The following table summarizes the major asset components as a percentage of total assets as of December 31, 2005, 2004, and 2003:

Assets:	December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash, and cash equivalents, investment securities, FHLB and Federal Reserve stock.....	29.7%	39.1%	43.2%
Real estate loans and loans held for sale.....	16.3%	13.0%	11.5%
Commercial loans.....	35.9%	32.3%	30.1%
Consumer loans.....	12.5%	11.3%	10.6%
Other assets.....	5.6%	4.3%	4.6%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The percentage of assets held as cash, and cash equivalents, investment securities, FHLB and Federal Reserve stock has decreased from 39.1 percent at December 31, 2004 to 29.7 percent at December 31, 2005. The decrease is a result of the continuing principal paydowns on securities and the increase in total assets resulting from the large increase in loans outstanding. The Company continues to focus on quality loan growth of all types which contributed to an increase in all loan categories.

Liabilities

The following table summarizes the liability balances as of December 31, 2005 and 2004, the amount of change, and percentage change during 2005:

Liabilities (\$ in thousands)	December 31,		<u>\$ change</u>	<u>% change</u>
	<u>2005</u>	<u>2004</u>		
Non-interest bearing deposits	\$ 667,008	\$ 460,059	\$ 206,949	45%
Interest-bearing deposits	1,867,704	1,269,649	598,055	47%
Advances from Federal Home Loan Bank	402,191	818,933	(416,742)	-51%
Securities sold under agreements to repurchase and other borrowed funds	317,222	81,215	236,007	291%
Other liabilities	33,980	30,697	3,283	11%
Subordinated debentures	85,000	80,000	5,000	6%
Total liabilities	<u>\$ 3,373,105</u>	<u>\$ 2,740,553</u>	<u>\$ 632,552</u>	<u>23%</u>

Non-interest bearing deposits have increased \$207 million, or 45 percent, since December 31, 2004. Without acquisitions the increase was \$58 million, or 13 percent. This continues to be a primary focus of our banks and the programs we have initiated this past year continue to gain momentum. Interest bearing deposits, including \$165 million in broker originated certificates of deposit, have increased \$598 million from December 31, 2004 with \$310 million from acquisitions. Since December 31, 2004, without acquisitions, interest bearing deposits increased \$288 million, or 23 percent. This growth in deposits, a low cost stable funding source, gives us increased flexibility in managing our asset mix. Federal Home Loan Bank advances decreased \$417 million, and repurchase agreements and other borrowed funds increased \$236 million from December 31, 2004. At December 31, 2005 other borrowed funds includes \$179 million in U. S. Treasury Tax and Loan Term Auction funds.

The following table summarizes the major liability components as a percentage of total liabilities as of December 31, 2005, 2004, and 2003:

Liabilities and Stockholder's Equity:	December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Deposit accounts.....	68.4%	57.4%	58.3%
FHLB advances.....	10.8%	27.2%	28.4%
Other borrowings and repurchase agreements.....	8.6%	2.7%	2.4%
Other liabilities.....	3.2%	3.7%	2.2%
Stockholders' equity.....	9.0%	9.0%	8.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The deposits increased from 57.4 percent at December 31, 2004 to 68.4 percent at December 31, 2005. The large increase in deposits and the increase in other borrowed funds allowed the Company to significantly reduce the FHLB advances. Stockholders equity as a percentage of total liabilities and stockholder's equity remained steady throughout the year, even though there were several branch and bank acquisitions and large growth in liabilities.

Stockholders' equity

(\$ in thousands except per share data)

	December 31,			
	<u>2005</u>	<u>2004</u>	<u>\$ change</u>	<u>% change</u>
Common equity	\$ 332,418	\$ 264,250	\$ 68,168	26%
Accumulated other comprehensive income	821	5,934	(5,113)	-86%
Total stockholders' equity	<u>333,239</u>	<u>270,184</u>	<u>63,055</u>	<u>23%</u>
Core deposit intangible, net, and goodwill	<u>(87,114)</u>	<u>(42,315)</u>	<u>(44,799)</u>	<u>106%</u>
Tangible stockholders' equity	<u>\$ 246,125</u>	<u>\$ 227,869</u>	<u>\$ 18,256</u>	<u>8%</u>
Stockholders' equity to total assets	8.99%	8.97%		
Tangible stockholders' equity to total tangible assets	6.80%	7.68%		
Book value per common share	\$ 10.36	\$ 8.80	\$ 1.56	18%
Market price per share at end of quarter	\$ 30.05	\$ 27.23	\$ 2.82	10%

Stockholders' equity

Total equity and book value per share amounts have increased substantially from December 31, 2004, the result of issuing stock for the Citizens Community Bank, and First State Bank acquisitions, earnings retention, and stock options exercised. Accumulated other comprehensive income, representing net unrealized gains on securities available for sale, decreased \$5.113 million from December 31, 2004, primarily a function of interest rate changes and the decreased balance of securities.

Results of Operations

Revenue summary

(\$ in thousands)

	Years ended December 31,			
	<u>2005</u>	<u>2004</u>	<u>\$ change</u>	<u>% change</u>
Net interest income	\$ 130,007	\$ 107,393	\$ 22,614	21%
Fees and other revenue:				
Service charges, loan fees, and other fees	30,812	24,260	6,552	27%
Gain on sale of loans	11,048	8,015	3,033	38%
Loss on sale of investments	(138)	-	(138)	n/m
Other income	2,904	2,290	614	27%
Total non-interest income	<u>44,626</u>	<u>34,565</u>	<u>10,061</u>	<u>29%</u>
	<u>\$ 174,633</u>	<u>\$ 141,958</u>	<u>\$ 32,675</u>	<u>23%</u>
Tax equivalent net interest margin	<u>4.20%</u>	<u>4.15%</u>		

Net Interest Income

Net interest income for the year increased \$22.614 million, or 21 percent, over 2004. Total interest income increased \$42.700 million, or 29 percent, while total interest expense was \$20.086 million, or 50 percent higher. FHLB dividends received were \$1.125 million lower in 2005. The increase in interest expense is primarily attributable to the volume increase in interest bearing liabilities, and increases in short term interest rates during 2004 and 2005. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.20 percent which was five basis points higher than the 4.15 percent result for 2004.

Non-interest Income

Total non-interest income increased \$10.061 million, or 29 percent in 2005. Fee income increased \$6.552 million, or 27 percent, over last year, driven primarily by an increased number of loan and deposit accounts, acquisitions, and additional customer product and services offered. Gain on sale of loans increased \$3.033 million, or 38 percent, from last year. Loan origination activity for housing construction and purchases remains strong in our markets and has offset much of the reduction in refinance activity experienced last year. Other income was \$614 thousand higher than 2004 of which \$220 thousand was from the sale of property held for future expansion that was no longer needed, and the remainder from various volume increases.

Non-interest expense summary (\$ in thousands)

	Years ended December 31,			
	2005	2004	\$ change	% change
Compensation and employee benefits and related expense	\$ 51,385	\$ 39,955	\$ 11,430	29%
Occupancy and equipment expense	12,851	10,797	2,054	19%
Outsourced data processing	1,839	1,551	288	19%
Core deposit intangibles amortization	1,470	1,074	396	37%
Other expenses	23,381	18,756	4,625	25%
Total non-interest expense	<u>\$ 90,926</u>	<u>\$ 72,133</u>	<u>\$ 18,793</u>	<u>26%</u>

Non-interest Expense

Non-interest expense increased by \$18.793 million, or 26 percent, from 2004. Compensation and benefit expense increased \$11.430 million, or 29 percent, with acquisitions, additional bank branches, commissions on mortgage loan production, normal compensation increases for job performance and increased cost for benefits accounting for the majority of the increase. Occupancy and equipment expense increased \$2.054 million, or 19 percent, reflecting the acquisitions, cost of additional locations and facility upgrades. Other expenses increased \$4.625 million, or 25 percent, primarily from acquisitions, additional marketing expenses, and costs associated with new branch offices. The efficiency ratio (non-interest expense/net interest income + non-interest income) increased slightly to 52 percent up from 51 percent for 2004.

Income tax expense

Income tax expense in 2005 was reduced by \$317 thousand due to the statutory closing of certain previous years' tax returns and tax accrual adjustments.

Credit quality information (\$ in thousands)

	December 31,	December 31,
	2005	2004
Allowance for loan losses	\$ 38,655	\$ 26,492
Non-performing assets	10,089	9,608
Allowance as a percentage of non performing assets	383%	276%
Non-performing assets as a percentage of total assets	0.26%	0.32%
Allowance as a percentage of total loans	1.59%	1.53%
Net charge-offs as a percentage of loans	0.020%	0.098%

Provision for loan losses – Non-performing assets as a percentage of total assets at December 31, 2005 were at .26 percent, increasing from .22 percent at September 30, 2005 the result of higher levels of non-performing assets acquired with the First State Bank transaction. Without the effects of the First State Bank acquisition, non-performing assets would have been \$4.561 million, or .12 percent of total assets. At December 31, 2004 the ratio was .32 percent. The Company ratios compare favorably to the Federal Reserve Bank Peer Group average of .45 percent at September 30, 2005, the most recent information available. The allowance for loan losses was 383 percent of non-performing assets at December 31, 2005, up from 276 percent a year ago. The allowance, including \$6.627 million from acquisitions, has increased \$12.163 million, or 46 percent, from a year ago. The allowance of \$38.655 million, is 1.59 percent of December 30, 2005 total loans outstanding, up slightly from the 1.53 percent a year ago. The provision for loan losses expense was \$6.023 million for 2005, an increase of \$1.828 million, or 44 percent, from 2004. Net charge offs of \$487 thousand was a very low .020 percent of loans outstanding which is substantially lower than the already low .098 percent in 2004. With the continuing change in loan mix from residential real estate to commercial and consumer loans, which historically have greater credit risk, the Company has increased the balance in the allowance for loan loss. Loan growth, average loan size, and credit quality considerations will determine the level of additional provision expense.

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.

Commitments

In the normal course of business, there are various outstanding commitments to extend credit, such as letter of credit and un-advanced loan commitments, which are not reflected in the accompanying consolidated financial statements. Management does not anticipate any material losses as a result of these transactions. The Company has outstanding debt maturities, the largest of which are the advances from the Federal Home Loan Bank. For the maturity schedule of advances see footnote 8 to the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data". The following table represents our contractual obligations as of December 31, 2005:

(dollars in thousands)	Payments Due by Period							
	Total	Indeterminate Maturity (1)	2006	2007	2008	2009	2010	Thereafter
Deposits.....	\$ 2,534,712	1,768,835	619,363	95,113	27,009	10,937	13,411	44
Advances from the FHLB.....	402,191	-	192,373	101,922	21,298	2,297	774	83,527
Repurchase agreements	129,530	-	129,348	-	-	182	-	-
Subordinated debentures.....	85,000	-	35,000	-	-	-	-	50,000
Capital lease obligations.....	3,631	-	189	200	202	204	206	2,630
Operating lease obligations.....	7,021	-	1,333	1,197	988	781	706	2,016
	<u>\$ 3,162,085</u>	<u>1,768,835</u>	<u>977,606</u>	<u>198,432</u>	<u>49,497</u>	<u>14,401</u>	<u>15,097</u>	<u>138,217</u>

(1) Represents interest and non-interest bearing checking, money market, and savings accounts

Market Risk

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

Interest Rate Risk

The objective of interest rate risk management is to contain the risks associated with interest rate fluctuations. The process involves identification and management of the sensitivity of net interest income to changing interest rates. Managing interest rate risk is not an exact science. The interval between repricing of interest rates of assets and liabilities changes from day to day as the assets and liabilities change. For some assets and liabilities contractual maturity and the actual cash flows experienced are not the same. A good example is residential mortgages that have long term contractual maturities but may be repaid well in advance of the maturity when current prevailing interest rates become lower than the contractual rate. Interest-bearing deposits without a stated maturity could be

withdrawn after seven days, however, the Bank's experience indicates that these funding pools have a much longer duration and are not as sensitive to interest rate changes as other financial instruments. Prime based loans generally have rate changes when the Federal Reserve Bank changes short term interest rates, however, depending on the magnitude of the rate change and the relationship of the current rates to rate floors and rate ceilings that may be in place on the loans, the loan rate may not change.

GAP analysis

The following table gives a description of our GAP position for various time periods. As of December 31, 2005, we had a negative GAP position at six months and a positive GAP position at twelve months. The cumulative GAP as a percentage of total assets for six months is a negative 6.29% which compares to a negative 5.55% at December 31, 2004 and a negative 4.00% at December 31, 2003. The table also shows the GAP earnings sensitivity, and earnings sensitivity ratio, along with a brief description as to how they are calculated. 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				Total
	0-6 Months	6-12 Months	1 - 5 years	More than 5 years	
Assets:					
Interest bearing deposits and federal funds sold.....	\$ 23,276	-	-	-	23,276
Investment securities.....	10,466	4,585	108,451	205,221	328,723
Mortgage-backed securities.....	101,731	87,758	360,355	35,874	585,718
FHLB stock and FRB stock.....	36,301	-	-	17,228	53,529
Floating rate loans.....	801,593	144,458	536,172	30,847	1,513,070
Fixed rate loans.....	209,418	137,968	444,913	138,622	930,921
Total interest bearing assets.....	\$ 1,182,785	374,769	1,449,891	427,792	3,435,237
Liabilities:					
Interest-bearing deposits.....	976,353	148,970	139,073	603,308	1,867,704
FHLB advances.....	105,568	86,822	126,469	83,332	402,191
Repurchase agreements and other borrowed funds.....	316,856	252	114	-	317,222
Total interest bearing liabilities.....	\$ 1,398,777	236,044	265,656	686,640	2,587,117
Repricing gap.....	\$ (215,992)	138,725	1,184,235	(258,848)	848,120
Cumulative repricing gap.....	\$ (215,992)	(77,267)	1,106,968	848,120	
Cumulative gap as a % of total assets.....	-6.29%	-2.25%	32.22%	24.69%	
Gap Earnings Sensitivity (1).....	\$	(471)			
Gap Earnings Sensitivity Ratio (2).....		-0.90%			

(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 (\$77,276 - \$30,138))

(2) Gap Earnings Sensitivity Ratio is Gap Earnings Sensitivity divided by the estimated yearly earnings of \$52,373. 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.

Net interest income simulation

The traditional one-dimensional view of GAP is not sufficient to show a bank's ability to withstand interest rate changes. Because of limitations in GAP modeling the Asset/Liability Management Committee (ALCO) of the Company uses a detailed and dynamic simulation model to quantify the estimated exposure of net interest income (NII) to sustained interest rate changes. While ALCO routinely monitors simulated NII sensitivity over a rolling two-year horizon, it also utilizes additional tools to monitor potential

longer-term interest rate risk. The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all assets and liabilities reflected on the Company's statement of financial condition. This sensitivity analysis is compared to ALCO policy limits which specify a maximum tolerance level for NII exposure over a one year horizon, assuming no balance sheet growth, given a 200 basis point (bp) upward and 200 or 100 bp downward shift in interest rates. A parallel and pro rata shift in rates over a 12-month period is assumed as a benchmark. Other non-parallel rate movement scenarios are also modeled to determine the potential impact on net interest income. The following reflects the Company's NII sensitivity analysis as of December 31, 2005 and 2004 as compared to the 10% Board approved policy limit.

	<u>+200 bp</u>	<u>2005</u>	<u>2004</u>
Estimated sensitivity.....		-2.08%	-3.47%
Estimated decrease in net interest income	\$	(2,704)	(3,727)
	<u>-200 bp and -100 bp (1)</u>		
Estimated sensitivity.....		-0.64%	0.38%
Estimated increase in net interest income	\$	(832)	408

(1) -200 bp and -100 bp for the years ended December 31, 2005, and 2004, respectively

The preceding sensitivity analysis does not represent a forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of assets and liability cash flows, and others. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences might change. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment/refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal/external variables. Furthermore, the sensitivity analysis does not reflect actions that ALCO might take in responding to or anticipating changes in interest rates.

Liquidity Risk

Liquidity risk is the possibility that the Company will not be able to fund present and future obligations. 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. Core deposits, FHLB credit lines, available-for-sale investment securities, and net income are the key elements in meeting these objectives. All nine banking subsidiaries are members of the FHLB. 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. As of year ended December 31, 2005, the Company had \$847 million of available FHLB line of which \$402 million was utilized. Accordingly, management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each individual institution as well as the Company as a whole

Capital Resources and Adequacy

Maintaining capital strength has been a long term objective. Ample capital is necessary to sustain growth, provide protection against unanticipated declines in asset values, and to safeguard the funds of depositors. Capital also is a source of funds for loan demand and enables the Company to effectively manage its assets and liabilities. Shareholders' equity increased \$63.055 million during 2005, or 23 percent the net result of earnings of \$52.373 million, common stock issued for the acquisition of Citizens and First State Bank, less cash dividend payments and a decline of \$5.113 million in the net unrealized gains on available-for-sale investment securities. For additional information see footnote 11 in the Consolidated Financial Statements. Dividend payments were increased by \$.06 per share, or 11 percent in 2005. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends which would constitute an unsafe or unsound banking practice.

Critical Accounting Policies

Companies may apply certain critical accounting policies requiring management to make subjective or complex judgments, often as a result of the need to estimate the effect of matters that are inherently uncertain. The Company considers its only material critical accounting policy to be the allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged against earnings. The balance of allowance for loan losses is maintained at the amount management believes will be adequate to absorb known and inherent losses in the loan portfolio. The appropriate balance of allowance for loan losses is

determined by applying estimated loss factors to the credit exposure from outstanding loans. Estimated loss factors are based on subjective measurements including management's assessment of the internal risk classifications, changes in the nature of the loan portfolio, industry concentrations and the impact of current local, regional and national economic factors on the quality of the loan portfolio. Changes in these estimates and assumptions are reasonably possible and may have a material impact on the Company's consolidated financial statements, results of operations or liquidity. For additional information regarding the allowance for loan losses, its relation to the provision for loans losses and risk related to asset quality, see Note 4 to the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data".

Impact of Recently Issued Accounting Standards

In November 2005, the Financial Accounting Standards Board issued a Staff Position which amends SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities*. The Staff Position addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss.

In May 2005, the Financial Accounting Standards Board issued SFAS No. 154 *Accounting Changes and Errors Corrections* which requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement replaces APB Opinion No. 20 *Accounting Changes*, and SFAS No. 3 *Reporting Accounting Changes in Interim Financial Statements*. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In December 2004, the Financial Accounting Standards Board issued a revised version of SFAS No. 123 *Share-Based Payment*, mandating that companies measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). The intrinsic value method of accounting for such awards, as previously elected by the company and provided for in APB Opinion No. 25, *Accounting for Stock Issued to Employees* will no longer be acceptable under GAAP for public companies as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. If no comparable market values are available, the grant-date fair value of employee share options and similar instruments is to be estimated using option-pricing models adjusted for the unique characteristics of those instruments.

Under the previous provisions of SFAS No. 123, *Accounting for Stock Based Compensation* companies using the intrinsic value method were required to disclose in a footnote to their financial statements the effect on net income of using the intrinsic value rather than the grant-date fair value method. The company has continued to use the intrinsic value method, with appropriate disclosures, in its financial statements through December 31, 2005 (See *Stock Based Compensation* under Note 1 to the company's consolidated financial statements). The company expects to adopt SFAS No. 123 (Revised) effective with its reporting for the first quarter of 2006.

Management's Discussion and Analysis of the Results of Operations Year ended December 31, 2004 Compared to December 31, 2003

Results of Operations

Operating results include amounts related to the operation of the three branches acquired with the Pend Oreille Bank as of July 15, 2003 and the Ione, Washington branch as of June 4, 2004.

Revenue summary
(\$ in thousands)

	Years ended December 31,			
	2004	2003	\$ change	% change
Net interest income	\$ 107,393	\$ 92,352	\$ 15,041	16%
Fees and other revenue:				
Service charges, loan fees, and other fees	24,260	19,756	4,504	23%
Gain on sale of loans	8,015	10,674	(2,659)	-25%
Gain on sale of investments, net of impairment charge	-	1,253	(1,253)	-100%
Other income	2,290	1,879	411	22%
Total non-interest income	<u>34,565</u>	<u>33,562</u>	<u>1,003</u>	<u>3%</u>
	<u>\$ 141,958</u>	<u>\$ 125,914</u>	<u>\$ 16,044</u>	<u>13%</u>
Tax equivalent net interest margin	<u>4.15%</u>	<u>4.20%</u>		

Net Interest Income

Net interest income increased \$15.041 million, or 16 percent, over 2003. Total interest income was \$16.455 million, or 13 percent higher than 2003, while total interest expense was \$1.414 million, or 4 percent higher. The investment portfolio generated approximately 61 percent of the increase in interest income. Additional interest income from the large increase in loans outstanding was partially offset by lower rates on the loan portfolio due to refinancing, and re-pricing of existing loans. The increase in interest expense is attributed to the increase in the subordinated debentures which increased interest expense by \$2.004 million. Interest expense on deposits declined \$3.167 million, or 18 percent, from reductions in rates on maturing fixed term interest bearing deposits. Interest on Federal Home Loan Bank borrowings and other borrowed funds increased \$2.577 million, or 15 percent, from increased volumes and decreasing interest rates. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.15 percent which was a decrease from 4.20 percent for 2003.

Non-interest Income

Fee income increased \$4.504 million, or 23 percent, over last year, driven primarily by an increased number of loan and deposit accounts and the fee income associated with this growth in accounts. Gain on sale of loans decreased \$2.659 million, or 25 percent, from last year, because of greatly reduced refinance activity. Loan origination activity for housing, especially new construction, remains quite strong in our markets. In 2003 gains on sale of investments, net of impairment charge, of \$1.253 million were recorded and zero gains were realized in 2004.

Non-interest expense summary
(\$ in thousands)

	Years ended December 31,			
	2004	2003	\$ change	% change
Compensation and employee benefits and related expense	\$ 39,955	\$ 36,173	\$ 3,782	10%
Occupancy and equipment expense	10,797	9,931	866	9%
Outsourced data processing	1,551	1,650	(99)	-6%
Core deposit intangibles amortization	1,074	1,243	(169)	-14%
Other expenses	18,756	16,947	1,809	11%
Total non-interest expense	<u>\$ 72,133</u>	<u>\$ 65,944</u>	<u>\$ 6,189</u>	<u>9%</u>

Non-interest Expense

Non-interest expense increased by \$6.189 million, or 9 percent, from 2003 including expenses from the acquisitions, two additional branches in Boise, Idaho, and a new branch in downtown Bozeman, Montana. Compensation and benefit expense increased \$3.782 million, or 10 percent, with the additional bank branches, normal compensation increases for job performance and increased cost for benefits tied to Company performance, accounting for the majority of the increase. Occupancy and equipment expense increased \$866 thousand, or 9 percent, reflecting the cost of the additional locations and facility upgrades. Other expenses increased \$1.809 million, or 11 percent, primarily from start up expenses on implementing the High Performance Checking program at the four banks not previously on the program, additional advertising expense, \$600 thousand increase in audit and consulting expenses, and costs associated with new branch

offices and the acquisitions. The efficiency ratio (non-interest expense/net interest income + non-interest income) was 51 percent, improving slightly from the 53 percent in 2003, excluding the gain on sale of securities.

Credit quality information (\$ in thousands)	<u>December 31,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
Allowance for loan losses	\$ 26,492	\$ 23,990
Non-performing assets	9,608	13,068
Allowance as a percentage of non performing assets	276%	184%
Non-performing assets as a percentage of total assets	0.32%	0.48%
Allowance as a percentage of total loans	1.53%	1.65%
Net charge-offs as a percentage of loans	0.098%	0.118%

Provision for loan losses – Non-performing assets as a percentage of total assets at December 31, 2004 were at .32 percent, a decrease from .48 percent at December 31, 2003. This compares favorably to the Federal Reserve Bank Peer Group average of .49 percent at September 30, 2004, the most recent information available. The allowance for loan losses was 276 percent of non-performing assets at December 31, 2004, compared to 184 percent a year ago. The allowance has increased \$2.502 million, or 10 percent, from a year ago to \$26.492 million, which is 1.53 percent of December 31, 2004 total loans outstanding, down slightly from the 1.65 percent a year ago. The fourth quarter provision for loan losses expense was \$1.200 million, an increase of \$504 thousand from the same quarter in 2003.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Information regarding “Quantitative and Qualitative Disclosures about Market Risk” is set forth under “Item 7 - Management’s Discussion and Analysis”.

Item 8. Financial Statements and Supplementary Data



Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Glacier Bancorp, Inc.
Kalispell, Montana

We have audited the accompanying consolidated statement of financial condition of Glacier Bancorp, Inc. as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for the year then ended. 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. The consolidated financial statements of Glacier Bancorp, Inc. as of and for the years ended December 31, 2004 and 2003, were audited by other accountants whose report dated March 15, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Glacier Bancorp, Inc. as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Glacier Bancorp, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 24, 2006, expressed an unqualified opinion on management's assessment and on the effectiveness of the Company's internal control over financial reporting.

BKD, LLP

A handwritten signature in dark ink that reads "BKD, LLP". The signature is written in a cursive, slightly slanted style.

Denver, Colorado
February 24, 2006



Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Glacier Bancorp, Inc.
Kalispell, Montana

We have audited management's assessment, included in the accompanying Report of Management, that Glacier Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Glacier Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Glacier Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Glacier Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As discussed in management's assessment, the Company has excluded certain entities from management's assessment and we have excluded those entities from the scope of our audit of internal control over financial reporting as permitted by the SEC staff guidance provided in Question 3 of the SEC's publication, *Office of the Chief Accountant and Division of Corporation Finance: Management's Report on Internal Control Over Financial Reporting and Disclosure in Exchange Act Periodic Reports, Frequently Asked Questions*, dated June 23, 2004.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Glacier Bancorp, Inc. and subsidiaries and our report dated February 24, 2006, expressed an unqualified opinion thereon.

BKD, LLP

BKD, LLP

Denver, Colorado
February 24, 2006

Glacier Bancorp, Inc.
Consolidated Statements of Financial Condition

(dollars in thousands, except per share data)	December 31,	
	2005	2004
Assets:		
Cash on hand and in banks	\$ 111,418	79,300
Federal funds sold.....	7,537	--
Interest bearing cash deposits.....	15,739	13,007
Cash and cash equivalents.....	<u>134,694</u>	<u>92,307</u>
Investment securities, available-for-sale	967,970	1,085,626
Loans receivable, net of allowance for loan losses of \$38,655 and \$26,492 at December 31, 2005, and 2004, respectively.....	2,374,647	1,687,329
Loans held for sale.....	22,540	14,476
Premises and equipment, net	79,952	55,732
Real estate and other assets owned, net	332	2,016
Accrued interest receivable	19,923	15,637
Core deposit intangible, net of accumulated amortization of \$6,801 and \$5,331 at December 31, 2005, and 2004, respectively.....	8,015	4,939
Goodwill.....	79,099	37,376
Other assets.....	19,172	15,299
	<u>\$ 3,706,344</u>	<u>3,010,737</u>
Liabilities:		
Non-interest bearing deposits.....	\$ 667,008	460,059
Interest bearing deposits.....	1,867,704	1,269,649
Advances from Federal Home Loan Bank of Seattle	402,191	818,933
Securities sold under agreements to repurchase	129,530	76,158
Other borrowed funds.....	187,692	5,057
Accrued interest payable.....	7,437	4,864
Deferred tax liability.....	2,746	8,392
Subordinated debentures.....	85,000	80,000
Other liabilities.....	23,797	17,441
Total liabilities.....	<u>3,373,105</u>	<u>2,740,553</u>
Stockholders' equity:		
Preferred shares, \$.01 par value per share. 1,000,000 shares authorized. none issued or outstanding at December 31, 2005 and 2004.....	--	--
Common stock, \$.01 par value per share. 78,125,000 and 62,500,000 shares authorized, 32,172,548 and 30,686,763 issued and outstanding at December 31, 2005 and 2004, respectively.....	322	307
Paid-in capital.....	262,383	227,552
Retained earnings - substantially restricted.....	69,713	36,391
Accumulated other comprehensive income.....	821	5,934
Total stockholders' equity	<u>333,239</u>	<u>270,184</u>
	<u>\$ 3,706,344</u>	<u>3,010,737</u>

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,		
	2005	2004	2003
Interest Income:			
Real estate loans.....	\$ 34,506	22,942	23,883
Commercial loans.....	81,359	57,312	50,203
Consumer and other loans.....	28,696	20,331	20,013
Investment securities and other.....	45,424	46,700	36,731
Total Interest Income.....	<u>189,985</u>	<u>147,285</u>	<u>130,830</u>
Interest Expense:			
Deposits	25,705	14,054	17,221
Federal Home Loan Bank of Seattle advances	21,489	18,540	16,860
Securities sold under agreements to repurchase	2,948	873	673
Subordinated debentures.....	6,455	5,619	3,615
Other borrowed funds.....	3,381	806	109
Total Interest Expense.....	<u>59,978</u>	<u>39,892</u>	<u>38,478</u>
Net Interest Income	130,007	107,393	92,352
Provision for loan losses	6,023	4,195	3,809
Net interest income after provision for loan losses.....	123,984	103,198	88,543
Non-Interest Income:			
Service charges and other fees.....	24,503	19,550	15,458
Miscellaneous loan fees and charges.....	6,309	4,710	4,298
Gain on sale of loans.....	11,048	8,015	10,674
(Loss) Gain on sale of investments, net of impairment charge.....	(138)	--	1,253
Other income.....	2,904	2,290	1,879
Total Non-Interest Income.....	<u>44,626</u>	<u>34,565</u>	<u>33,562</u>
Non-Interest Expense:			
Compensation, employee benefits and related expense.....	51,385	39,955	36,173
Occupancy and equipment expense.....	12,851	10,797	9,931
Outsourced data processing expense.....	1,839	1,551	1,650
Core deposit intangibles amortization	1,470	1,074	1,243
Other expense.....	23,381	18,756	16,947
Total Non-Interest Expense.....	<u>90,926</u>	<u>72,133</u>	<u>65,944</u>
Earnings before income taxes	77,684	65,630	56,161
Federal and state income tax expense	25,311	21,014	18,153
Net Earnings	\$ 52,373	44,616	38,008
Basic earnings per share	\$ 1.67	1.46	1.26
Diluted earnings per share	\$ 1.64	1.43	1.24

See accompanying notes to consolidated financial statements.

Glacier Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
and Comprehensive Income
Years ended December 31, 2005, 2004, and 2003

(Dollars in thousands, except per share data)	Common Stock		Paid-in capital	Retained earnings	Accumulated other comprehensive income	Total stockholders' equity
	Shares	Amount		(accumulated deficit) substantially restricted		
Balance at December 31, 2002.....	29,710,000	\$ 297	216,868	(15,027)	10,111	212,249
Comprehensive income:						
Net earnings.....	--	--	--	38,008	--	38,008
Unrealized loss on securities, net of reclassification adjustment.....	--	--	--	--	(3,495)	(3,495)
Total comprehensive income.....	--	--	--	--	--	34,513
Cash dividends declared (\$.48 per share).....	--	--	--	(14,573)	--	(14,573)
Stock options exercised.....	544,173	6	4,668	--	--	4,674
Acquisition of fractional shares.....	--	--	--	(15)	--	(15)
Tax benefit from stock related compensation.....	--	--	991	--	--	991
Balance at December 31, 2003.....	30,254,173	\$ 303	222,527	8,393	6,616	237,839
Comprehensive income:						
Net earnings.....	--	--	--	44,616	--	44,616
Unrealized loss on securities, net of reclassification adjustment.....	--	--	--	--	(682)	(682)
Total comprehensive income.....	--	--	--	--	--	43,934
Cash dividends declared (\$.54 per share).....	--	--	--	(16,618)	--	(16,618)
Stock options exercised.....	521,653	5	5,434	--	--	5,439
Repurchase and retirement of stock.....	(89,063)	(1)	(1,804)	--	--	(1,805)
Acquisition of fractional shares.....	--	--	(9)	--	--	(9)
Tax benefit from stock related compensation.....	--	--	1,404	--	--	1,404
Balance at December 31, 2004.....	30,686,763	\$ 307	227,552	36,391	5,934	270,184
Comprehensive income:						
Net earnings.....	--	--	--	52,373	--	52,373
Unrealized loss on securities, net of reclassification adjustment.....	--	--	--	--	(5,113)	(5,113)
Total comprehensive income.....	--	--	--	--	--	47,260
Cash dividends declared (\$.60 per share).....	--	--	--	(19,051)	--	(19,051)
Stock options exercised.....	397,770	4	5,154	--	--	5,158
Stock issued in connection with acquisitions.....	1,088,014	11	28,427	--	--	28,438
Acquisition of fractional shares.....	--	--	(8)	--	--	(8)
Tax benefit from stock related compensation.....	--	--	1,258	--	--	1,258
Balance at December 31, 2005.....	32,172,547	\$ 322	262,383	69,713	821	333,239

	Year ended December 31,		
	2005	2004	2003
Disclosure of reclassification amount:			
Unrealized and realized holding loss arising during the year.....	\$ (8,574)	(1,124)	(2,225)
Tax benefit.....	3,377	442	866
Net after tax.....	(5,197)	(682)	(1,359)
Reclassification adjustment for net loss (gain) included in net income.....	138	--	(3,502)
Tax (benefit) expense.....	(54)	--	1,366
Net after tax.....	84	--	(2,136)
Net change in unrealized loss on available-for-sale securities.....	\$ (5,113)	(682)	(3,495)

See accompanying notes to consolidated financial statements.

Glacier Bancorp, Inc.
Consolidated Statements of Cash Flows

Years ended December 31,

(dollars in thousands)	2005	2004	2003
OPERATING ACTIVITIES :			
Net earnings.....	\$ 52,373	44,616	38,008
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Mortgage loans held for sale originated or acquired.....	(455,429)	(292,017)	(521,323)
Proceeds from sales of mortgage loans held for sale.....	462,115	302,529	567,010
Provision for loan losses.....	6,023	4,195	3,809
Depreciation of premises and equipment.....	5,349	4,567	4,283
Amortization of core deposit intangible.....	1,470	1,074	1,243
Loss (gain) on sale of investments, net of impairment charge.....	138	--	(1,253)
Gain on sale of loans.....	(11,048)	(8,015)	(10,674)
Amortization of investment securities premiums and discounts, net.....	8,846	11,263	14,360
Federal Home Loan Bank of Seattle stock dividends.....	(180)	(1,218)	(2,179)
Deferred tax (benefit) expense	(2,204)	284	722
Tax benefit from stock related compensation.....	1,258	1,404	991
Net increase in accrued interest receivable.....	(890)	(696)	(1,270)
Net increase (decrease) in accrued interest payable.....	1,949	495	(1,795)
Net increase in current income taxes	1,308	1,201	1,645
Net decrease (increase) in other assets.....	2,394	(2,145)	1,808
Net increase (decrease) in other liabilities.....	3,512	2,253	(99)
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	76,984	69,790	95,286
INVESTING ACTIVITIES:			
Proceeds from sales, maturities and prepayments of investment securities available-for-sale.....	419,524	317,273	389,400
Purchases of investment securities available-for-sale.....	(164,119)	(315,172)	(715,454)
Principal collected on installment and commercial loans.....	781,848	677,004	566,245
Installment and commercial loans originated or acquired.....	(1,150,877)	(875,539)	(705,249)
Principal collections on mortgage loans.....	470,450	296,482	303,251
Mortgage loans originated or acquired.....	(507,471)	(376,039)	(283,278)
Net purchase of FHLB and FRB stock.....	(1,995)	(1,942)	(973)
Acquisitions of banks and branches.....	6,265	14,524	(243)
Net addition of premises and equipment.....	(17,359)	(7,032)	(7,579)
NET CASH USED IN INVESTING ACTIVITIES.....	(163,734)	(270,441)	(453,880)
FINANCING ACTIVITIES:			
Net increase in deposits.....	346,577	116,943	77,943
Net (decrease) increase in FHLB advances	(439,545)	41,639	293,634
Net increase in securities sold under repurchase agreements.....	53,372	19,190	10,762
Net increase (decrease) in other borrowed funds.....	182,634	(2,961)	(7,069)
Proceeds from issuance of subordinated debentures.....	--	45,000	--
Cash dividends paid	(19,051)	(16,618)	(14,572)
Proceeds from exercise of stock options and other stock issued.....	5,158	5,439	4,674
Repurchase and retirement of stock.....	--	(1,805)	--
Cash paid for stock dividends.....	(8)	(9)	(15)
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	129,137	206,818	365,357
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	42,387	6,167	6,763
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	92,307	86,140	79,377
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 134,694	\$ 92,307	\$ 86,140
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest.....	\$ 57,404	39,382	40,219
Cash paid during the year for income taxes.....	\$ 24,808	18,424	14,721

The following schedule summarizes the acquisition of Bank Holding Co. and subsidiaries in 2005

	First National Banks - West Co.	Citizens Bank Holding Company	First State Bank
Fair Value of assets acquired	\$ 267,126	126,394	152,592
Cash paid for the capital stock	41,000	8,602	2,100
Capital stock issued	-	8,715	19,723
Liabilities assumed	226,126	109,077	130,663

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) General

Glacier Bancorp, Inc. (the "Company"), is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation incorporated in 1990. The Company is a multi-bank holding company that provides a full range of banking services to individual and corporate customers in Montana, Idaho, Wyoming, Utah and Washington 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. 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 judgments 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 nine wholly owned operating subsidiaries, Glacier Bank ("Glacier"), Mountain West Bank in Idaho, ("Mountain West"), First Security Bank of Missoula ("First Security"), Western Security Bank ("Western"), First National Bank – West ("First National"), Big Sky Western Bank, ("Big Sky"), Valley Bank of Helena ("Valley"), Glacier Bank of Whitefish ("Whitefish"), and Citizens Community Bank ("Citizens"). All significant inter-company transactions have been eliminated in consolidation.

On October 31, 2005, First State Bank in Thompson Falls, Montana was acquired and its branches became part of First Security. On May 20, 2005, Zions National Bank branch office in Bonners Ferry, Idaho was acquired and became a branch of Mountain West Bank. On April 1, 2005, Citizens Bank Holding Co. and its subsidiary bank Citizens Community Bank in Pocatello, Idaho was acquired and became the ninth subsidiary bank of the Company. On February 28, 2005, First National Bank-West Co. and its subsidiary bank First National Bank – West in Evanston, Wyoming was acquired and became the eighth subsidiary bank of the Company. On June 4, 2004, AmericanWest Bancorp.'s branch office in Ione, Washington was acquired and became a branch of Mountain West Bank. Accordingly, the financial information presented includes the operations since the date of the acquisitions. See footnote 20 for additional information related to these transactions.

(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. Currently, the Company only holds available-for-sale securities.

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.

The Company holds stock in the Federal Home Loan Bank of Seattle (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.

1. Summary of Significant Accounting Policies . . . continued

(e) Loans Receivable

Loans that are intended to be held to maturity are reported at their unpaid principal balance less charge-offs, specific valuation accounts, and any deferred fees or costs on originated loans. Purchased loans are reported net of unamortized premiums or discounts. Interest income is reported on the interest method and includes discounts and premiums on purchased loans and net loan fees on originated loans which are amortized over the expected life of loans using methods that approximate the effective 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 judgment 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. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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 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. The estimated useful life for office buildings is 15-40 years and the estimated useful life for furniture, fixtures, and equipment is 3-10 years.

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) Goodwill

On an annual basis, as required by Financial Accounting Standards Board (FASB) Statement 142, *Goodwill and Other Intangible Assets*, the Company tests goodwill for impairment at the subsidiary level during the third quarter. In addition, goodwill is tested for impairment on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment loss has occurred.

1. Summary of Significant Accounting Policies . . . continued

(k) Core Deposit Intangibles

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. The useful life of the core deposit intangible is reevaluated on an annual basis, with any changes in estimated useful life being accounted for prospectively over the revised remaining life.

(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.

The per share weighted-average fair value of stock options granted during 2005, 2004 and 2003 was \$3.46, \$2.12, and \$3.26, respectively, on the date of grant using the Black Scholes option-pricing model with the following assumptions: 2005 – expected dividend yield of 2.23%, risk-free interest rate of 3.44%, volatility ratio of 18%, and expected life of 3.4 years; 2004 – expected dividend yield of 2.44%, risk-free interest rate of 2.82%, volatility ratio of 19%, and expected life of 4.8 years; 2003 – expected dividend yield of 3.01%, risk-free interest rate of 2.78%, volatility ratio of 21%, 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 123, *Accounting for Stock-Based Compensation*, the Company's net income would have been reduced to the pro forma amounts indicated below:

		Years ended December 31,		
		2005	2004	2003
Net earnings (in thousands):	As reported	\$ 52,373	44,616	38,008
	Compensation cost	(1,308)	(685)	(752)
	Pro forma	51,065	43,931	37,256
Basic earnings per share:	As reported	\$ 1.67	1.46	1.26
	Compensation cost	(0.04)	(0.02)	(0.02)
	Pro forma	1.63	1.44	1.24
Diluted earnings per share:	As reported	\$ 1.64	1.43	1.24
	Compensation cost	(0.04)	(0.02)	(0.02)
	Pro forma	1.60	1.41	1.22

In December 2004, the Financial Accounting Standards Board issued a revised version of SFAS No. 123 *Share-Based Payment* (SFAS 123R), which replaces SFAS 123 and supersedes APB 25. The Company is required to apply SFAS 123R as of the first interim reporting period of the first annual reporting period that begins after June 15, 2005. SFAS 123R requires the recognition of compensation cost related to share-based payment plans to be recognized in the financial statements based on the fair value of the equity or liability instruments issued. The company expects to adopt SFAS No. 123 (Revised) effective with its reporting for the first quarter of 2006.

(n) Long-lived Assets

Long-lived assets, including core deposit 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, 2005 and 2004 there were no assets that were considered impaired.

1. Summary of Significant Accounting Policies . . . continued

(o) Mortgage Servicing Rights

The Company recognizes the rights to service mortgage loans for others, whether acquired or internally originated. Loan servicing rights are initially recorded at fair value based on comparable market quotes and are amortized as other expense in proportion to and over the period of estimated net servicing income. Loan servicing rights are evaluated quarterly for impairment by discounting the expected future cash flows, taking into consideration the estimated level of prepayments based on current industry expectations and the predominant risk characteristics of the underlying loans including loan type, note rate and loan term. Impairment adjustments, if any, are recorded through a valuation allowance.

As of December 31, 2005 and 2004 the carrying value of servicing rights was approximately \$1,112,000 and \$1,241,000, respectively. Amortization expense of \$276,000, \$328,000, and \$729,000 was recognized in the years ended December 31, 2005, 2004, and 2003, respectively. The servicing rights are included in other assets on the balance sheet and are amortized over the period of estimated net servicing income. There was no impairment of carrying value at December 31, 2005 or 2004. At December 31, 2005, the fair value of mortgage servicing rights was approximately \$1,409,000.

(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) Stock Split

On April 26, 2005 the Board of Directors declared a five-for-four stock split, payable to shareholders of record on May 10, 2005, payable May 26, 2005. On April 28, 2004 the Board of Directors declared a five-for-four stock split, payable to shareholders of record on May 11, 2004, payable May 20, 2004. All prior period amounts have been restated to reflect the stock splits.

(r) Leases

The Company leases certain land, premises and equipment from third parties under operating and capital leases. The lease payments for operating lease agreements are recognized on a straight-line basis. The present value of the future minimum rental payments for capital leases is recognized as an asset when the lease is formed. Lease improvements incurred at the inception of the lease are recorded as an asset and depreciated over the initial term of the lease and lease improvements incurred subsequently are depreciated over the remaining term of the lease plus any extensions expected to be used.

(s) 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.

(t) Reclassifications

Certain reclassifications have been made to the 2004 and 2003 financial statements to conform to the 2005 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, 2005 was \$18,402,000.

3. Investment Securities, Available for Sale

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

INVESTMENTS AS OF DECEMBER 31, 2005

(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unrealized		Estimated Fair Value
			Gains	Losses	
U.S. Government and Federal Agencies					
maturing within one year.....	4.54%	\$ 1,236	-	(2)	1,234
maturing one year through five years.....	4.32%	3,962	-	(39)	3,923
maturing five years through ten years.....	6.55%	324	6	-	330
maturing after ten years.....	5.04%	337	2	-	339
	4.53%	5,859	8	(41)	5,826
State and Local Governments and other issues:					
maturing within one year.....	4.16%	365	3	-	368
maturing one year through five years.....	4.75%	6,858	48	(143)	6,763
maturing five years through ten years.....	5.08%	8,728	365	(16)	9,077
maturing after ten years.....	5.10%	287,175	12,476	(225)	299,426
	5.09%	303,126	12,892	(384)	315,634
Mortgage-Backed Securities.....	4.67%	65,926	308	(1,599)	64,635
Real Estate Mortgage Investment Conduits.....	4.22%	530,582	154	(9,653)	521,083
FHLMC and FNMA stock.....	5.74%	7,593	-	(330)	7,263
FHLB and FRB stock, at cost.....	0.66%	53,529	-	-	53,529
Total Investments	4.34%	\$ 966,615	13,362	(12,007)	967,970

INVESTMENTS AS OF DECEMBER 31, 2004

(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unrealized		Estimated Fair Value
			Gains	Losses	
U.S. Government and Federal Agencies					
maturing within one year.....	1.29%	\$ 251	-	-	251
maturing five years through ten years.....	4.62%	350	6	-	356
maturing after ten years.....	3.08%	481	2	(1)	482
	3.16%	1,082	8	(1)	1,089
State and Local Governments and other issues:					
maturing within one year.....	5.30%	518	8	-	526
maturing one year through five years.....	5.37%	1,205	64	-	1,269
maturing five years through ten years.....	4.69%	6,514	324	-	6,838
maturing after ten years.....	5.13%	292,102	12,971	(1,098)	303,975
	5.12%	300,339	13,367	(1,098)	312,608
Mortgage-Backed Securities.....	4.99%	56,629	919	(503)	57,045
Real Estate Mortgage Investment Conduits.....	3.77%	660,389	1,624	(4,469)	657,544
FHLMC and FNMA stock.....	5.74%	7,593	-	(56)	7,537
FHLB and FRB stock, at cost.....	3.22%	49,803	-	-	49,803
Total Investments	4.20%	\$ 1,075,835	15,918	(6,127)	1,085,626

3. Investment Securities, Available for Sale...continued

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. The Real Estate Mortgage Investment Conduits are backed by the FNMA, GNMA, or FHLMC.

The book value of securities was as follows at:

(dollars in thousands)	December 31, 2003
U.S. Government and Federal Agencies..... \$	1,581
State and Local Governments and Other Issues.....	312,028
Mortgage-Backed Securities.....	65,246
Real Estate Mortgage Investment Conduits.....	663,799
FHLMC and FNMA stock.....	7,657
FHLB and FRB stock.....	46,643
	<u>\$ 1,096,954</u>

Investments with an unrealized loss position at December 31, 2005:

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and Federal Agencies..... \$	5,158	40	44	1	5,202	41
State and Local Governments and other issues.....	12,689	216	9,330	168	22,019	384
FHLMC stock.....	7,170	330	-	-	7,170	330
Mortgage-Backed Securities.....	28,810	640	23,620	959	52,430	1,599
Real Estate Mortgage Investment Conduits.....	193,990	2,517	303,991	7,136	497,981	9,653
Total temporarily impaired securities	<u>\$ 247,817</u>	<u>3,743</u>	<u>336,985</u>	<u>8,264</u>	<u>584,802</u>	<u>12,007</u>

Most of the unrealized loss is the result of changing market values due to changes in intermediate and long term (10 year) interest rates. The value of real estate mortgage investment conduits and mortgage-backed securities is also affected by the level of mortgage refinancing activity and resulting prepayment of the underlying mortgages. During periods of increasing rates, values decline due to the opportunity to invest at current rates which are higher than the rates on the investments held. The Company anticipates the unrealized losses to be temporary and therefore an impairment charge is not required as of December 31, 2005.

Interest Income includes tax-exempt interest for the years ended December 31, 2005, 2004, and 2003 of \$13,867,000, \$13,917,000, and \$11,410,000, respectively.

Gross proceeds from sales of investment securities for the years ended December 31, 2005, 2004, and 2003 were approximately \$116,139,000, \$66,910,000 and \$19,603,000 respectively, resulting in gross gains of approximately \$471,000, \$304,000 and \$3,502,000 and gross losses of approximately \$609,000, \$304,000 and \$0, respectively. During 2003 an impairment of \$2,249,000 was recognized. The cost of any investment sold is determined by specific identification.

At December 31, 2005, the Company had investment securities with carrying values of approximately \$511,536,000 pledged as security for deposits of several local government units, securities sold under agreements to repurchase, collateral for treasury term borrowings, and as collateral for treasury tax and loan borrowings. At December 31, 2005, the Company had qualified investment securities with carrying values of approximately \$301,290,000 pledged as collateral for advances with the FHLB.

4. Loans Receivable, Net and Loans Held for Sale

The following is a summary of loans receivable, net and loans held for sale at:

(dollars in thousands)	December 31,	
	2005	2004
Residential first mortgage	\$ 589,260	382,750
Loans held for sale	22,540	14,476
Commercial real estate.....	781,181	526,455
Other commercial	579,515	466,582
Consumer	175,503	95,663
Home equity	295,992	248,684
	<u>2,443,991</u>	<u>1,734,610</u>
Net deferred loan fees, premiums and discounts.....	(8,149)	(6,313)
Allowance for loan losses.....	(38,655)	(26,492)
	<u>\$ 2,397,187</u>	<u>1,701,805</u>

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

(dollars in thousands)	Years ended December 31,		
	2005	2004	2003
Balance, beginning of period	\$ 26,492	23,990	20,944
Acquisitions.....	6,627	--	959
Net charge offs.....	(487)	(1,693)	(1,722)
Provision	6,023	4,195	3,809
Balance, end of period	<u>\$ 38,655</u>	<u>26,492</u>	<u>23,990</u>

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

(dollars in thousands)	December 31, 2005		December 31, 2004	
	Amount	Percent of loans in category	Amount	Percent of loans in category
Residential first mortgage and loans held for sale.....	\$ 4,318	25.0%	\$ 2,693	22.9%
Commercial real estate.....	14,370	32.0%	9,222	30.4%
Other commercial	12,566	23.7%	9,836	26.9%
Consumer.....	3,988	7.2%	2,083	5.5%
Home equity	3,413	12.1%	2,658	14.3%
	<u>\$ 38,655</u>	<u>100.0%</u>	<u>\$ 26,492</u>	<u>100.0%</u>

Substantially all of the Company's loan receivables are with customers within the Company's market area. Although the Company has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the economic performance in the Company's market areas. The subsidiary banks are subject to regulatory limits for the amount of loans to any individual borrower and all subsidiary banks are in compliance as of December 31, 2005. No individual borrower had outstanding loans or commitments exceeding 10% of the Company's consolidated stockholders' equity as of December 31, 2005.

4. Loans Receivable, Net and Loans Held for Sale . . . continued

Impaired loans, which consists of those reported as non-accrual, for the years ended December 31, 2005, 2004, and 2003 were approximately \$5,252,000, \$5,950,000, and \$10,062,000, respectively, of which no impairment allowance was deemed necessary. The average recorded investment in impaired loans for the years ended December 31, 2005, 2004, and 2003 was approximately \$5,090,000, \$8,733,000, and \$8,620,000, 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 \$359,000, \$372,000, and \$665,000 for the years ended December 31, 2005, 2004, and 2003, respectively. Interest income recognized on impaired loans for the years ended December 31, 2005, 2004, and 2003 was not significant. Loans ninety days overdue and still accruing interest for the years ended December 31, 2005, 2004, and 2003 were approximately \$4,505,000, \$1,642,000, and \$2,419,000, respectively.

The weighted average interest rate on loans was 6.84% and 6.32% at December 31, 2005 and 2004, respectively.

At December 31, 2005, 2004 and 2003 loans sold and serviced for others were \$145,279,000, \$174,805,000, and \$189,601,000, respectively.

At December 31, 2005 the Company had \$1,513,070,000 in variable rate loans and \$930,921,000 in fixed rate loans.

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 did not have any outstanding commitments on impaired loans as of December 31, 2005.

The Company had outstanding commitments as follows:

(dollars in thousands)	December 31,	
	2005	2004
Loans and loans in process.....	\$ 525,334	367,388
Unused consumer lines of credit.....	176,275	169,286
Letters of credit.....	25,218	18,842
	\$ 726,827	555,516

Substantially all of the loans held for sale at December 31, 2005 and 2004 were committed to be sold.

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, 2005 and 2004 was approximately \$37,509,000 and \$25,635,000. During 2005, new loans to such related parties were approximately \$29,964,000 and repayments were approximately \$18,090,000.

5. Premises and Equipment, Net

Premises and equipment, net consist of the following at:

(dollars in thousands)	December 31,	
	2005	2004
Land	\$ 18,155	12,053
Office buildings and construction in progress.....	64,696	45,079
Furniture, fixtures and equipment.....	34,826	25,656
Leasehold improvements.....	2,584	2,827
Accumulated depreciation	<u>(40,309)</u>	<u>(29,883)</u>
	<u>\$ 79,952</u>	<u>55,732</u>

6. Goodwill and Other Intangible Assets

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

(Dollars in thousands)	Core Deposit Intangible	Mortgage Servicing Rights (1)	Total
As of December 31, 2005			
Gross carrying value	\$ 14,816		
Accumulated Amortization	<u>(6,801)</u>		
Net carrying value	<u>\$ 8,015</u>	1,112	9,127
As of December 31, 2004			
Gross carrying value	\$ 10,270		
Accumulated Amortization	<u>(5,331)</u>		
Net carrying value	<u>\$ 4,939</u>	1,241	6,180
Weighted-Average amortization period			
(Period in years)	10.0	9.5	9.9
Aggregate Amortization Expense			
For the year ended December 31, 2005	\$ 1,470	276	1,746
For the year ended December 31, 2004	1,074	328	1,402
For the year ended December 31, 2003	1,243	729	1,972
Estimated Amortization Expense			
For the year ended December 31, 2006	1,612	77	1,689
For the year ended December 31, 2007	1,508	75	1,583
For the year ended December 31, 2008	1,413	73	1,486
For the year ended December 31, 2009	1,279	71	1,350
For the year ended December 31, 2010	1,069	68	1,137

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

6. Goodwill and Other Intangible Assets . . . continued

On October 31, 2005, First State Bank was acquired and its branches became part of First Security. A portion of the purchase was allocated to core deposit intangible of \$914,000 and goodwill of \$7,508,000. On May 20, 2005, the Zions National Bank branch office in Bonners Ferry, Idaho was acquired and became a branch of Mountain West Bank. A portion of the purchase was allocated to core deposit intangible of \$211,000 and goodwill of \$2,154,000. On April 1, 2005, Citizens was acquired and a portion of the purchase was allocated to core deposit intangible of \$975,000 and goodwill of \$9,553,000. On February 28, 2005, First National was acquired and a portion of the purchase was allocated to core deposit intangible of \$2,446,000 and goodwill of \$22,508,000. The following is a summary of activity in goodwill.

(Dollars in thousands)	Goodwill
Balance as of December 31, 2004	\$ 37,376
Acquisition of First National	22,508
Acquisition of Citizens	9,553
Acquisition of Bonner's Ferry branch	2,154
Acquisition of First State Bank	7,508
Balance as of December 31, 2005	<u>\$ 79,099</u>

7. Deposits

Deposits consist of the following at:

(dollars in thousands)	December 31, 2005			December 31, 2004		
	Weighted Average Rate	Amount	Percent	Weighted Average Rate	Amount	Percent
Demand accounts.....	0.0%	\$ 667,008	26.2%	0.0%	\$ 460,059	26.6%
NOW accounts.....	0.3%	367,077	14.5%	0.2%	280,455	16.2%
Savings accounts.....	0.5%	247,607	9.8%	0.3%	166,350	9.6%
Money market demand accounts.....	1.5%	487,143	19.2%	0.9%	415,817	24.0%
Certificate accounts:						
1.00% and lower.....		4,048	0.2%		52,056	3.0%
1.01% to 2.00%.....		87,955	3.5%		177,172	10.2%
2.01% to 3.00%.....		166,379	6.6%		100,566	5.8%
3.01% to 4.00%.....		240,085	9.5%		33,934	2.0%
4.01% to 5.00%.....		89,004	3.5%		21,216	1.2%
5.01% to 6.00%.....		10,304	0.4%		11,936	0.8%
6.01% to 7.00%.....		3,102	0.1%		9,643	0.6%
7.01% and higher.....		--	0.0%		504	0.0%
Brokered 3.01 to 4.00%		165,000	6.5%		--	0.0%
Total certificate accounts.....	2.8%	765,877	30.3%	2.2%	407,027	23.6%
Total interest bearing deposits.....	1.6%	1,867,704	73.8%	1.1%	1,269,649	73.4%
Total deposits.....	1.2%	\$ 2,534,712	100.0%	0.9%	1,729,708	100.0%
Deposits with a balance in excess of \$100,000		\$ 1,283,980			\$ 699,066	

7. Deposits . . . continued

At December 31, 2005, scheduled maturities of certificate accounts are as follows:

(dollars in thousands)	Total	Years ending December 31,				
		2006	2007	2008	2009	Thereafter
1.00% and lower.....	\$ 4,048	4,048	--	--	--	--
1.01% to 2.00%.....	87,955	85,277	2,506	164	8	--
2.01% to 3.00%.....	166,379	133,830	25,748	5,703	905	193
3.01% to 4.00%.....	240,085	172,395	36,311	17,139	8,588	5,652
4.01% to 5.00%.....	89,004	52,890	23,341	3,895	1,436	7,442
5.01% to 6.00%.....	10,304	2,954	7,191	24	--	135
6.01% to 7.00%.....	3,102	2,969	16	84	--	33
Brokered 3.01 to 4.00%	165,000	165,000	--	--	--	--
	\$ <u>765,877</u>	<u>619,363</u>	<u>95,113</u>	<u>27,009</u>	<u>10,937</u>	<u>13,455</u>

Interest expense on deposits is summarized as follows:

(dollars in thousands)	Years ended December 31,		
	2005	2004	2003
NOW accounts	\$ 889	474	484
Savings accounts	1,130	471	500
Money market demand accounts.....	7,552	3,776	3,840
Certificate accounts	16,134	9,333	12,397
	\$ <u>25,705</u>	<u>14,054</u>	<u>17,221</u>

The Company reclassified approximately \$2,683,000 and \$2,361,000 of overdraft demand deposits to loans of December 31, 2005 and 2004, respectively. The Company has entered into transactions with its executive officers, directors, significant shareholders, and their affiliates. The aggregate amount of deposits with such related parties at December 31, 2005, and 2004 was approximately \$29,135,000 and \$11,439,000, respectively.

8. Advances from Federal Home Loan Bank of Seattle

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

(dollars in thousands)	Maturing in years ending December 31,						Totals as of December 31,	
	2006	2007	2008	2009	2010	Thereafter	2005	2004
1.00% to 2.00%.....	\$ 40,000	--	--	--	--	--	40,000	40,000
2.01% to 3.00%.....	71,500	87,500	--	--	--	--	159,000	617,942
3.01% to 4.00%.....	1,000	13,000	3,000	250	750	40,000	58,000	97,350
4.01% to 5.00%.....	78,550	--	--	2,000	--	43,527	124,077	42,000
5.01% to 6.00%.....	148	148	18,124	1	-	--	18,421	18,564
6.01% to 7.00%.....	675	974	74	46	24	--	1,793	1,966
7.01% to 8.00%.....	500	300	100	--	--	--	900	1,111
	\$ <u>192,373</u>	<u>101,922</u>	<u>21,298</u>	<u>2,297</u>	<u>774</u>	<u>83,527</u>	<u>402,191</u>	<u>818,933</u>

8. Advances from Federal Home Loan Bank of Seattle . . . continued

These advances are collateralized by the FHLB stock held by the Company and a blanket assignment of the Bank's unpledged qualifying real estate loans and investments. The total amount of advances available, subject to collateral availability, as of December 31, 2005 was approximately \$445,197,000.

The weighted average interest rate on these advances was 3.26% and 2.72% at December 31, 2005 and 2004, respectively.

The Federal Home Loan Bank of Seattle holds callable options, which may be exercised after a predetermined time as shown below as of December 31, 2005:

(dollars in thousands)	Amount	Interest Rate	Maturity	Earliest Call
Call Terms				
Quarterly at FHLB option	\$ 3,000	5.37%	2008	2006
Quarterly at FHLB option	15,000	5.52%	2008	2006
If three month LIBOR is greater than 8% on quarterly measurement date after initial term.....	82,000	3.49% - 4.83%	2012	2006
	<u>\$ 100,000</u>			

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

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

December 31, 2005 (dollars in thousands)	Repurchase amount	Weighted average rate	Book value of underlying assets	Market value of underlying assets
Securities sold under agreements to repurchase within:				
Overnight	\$ 127,243	3.66%	191,166	190,602
Term up to 30 days	1,137	2.53%	1,165	1,146
Term over 90 days	1,150	3.00%	1,191	1,171
	<u>\$ 129,530</u>	3.65%	<u>\$ 193,522</u>	<u>192,919</u>
December 31, 2004				
(dollars in thousands)				
Securities sold under agreements to repurchase within:				
Overnight	\$ 76,158	1.87%	126,671	129,340
	<u>\$ 76,158</u>	1.87%	<u>\$ 126,671</u>	<u>129,340</u>

The securities, consisting of agency issued or guaranteed mortgage backed 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, 2005 and 2004 securities sold under agreements to repurchase averaged approximately \$103,522,000 and \$69,480,000, respectively, and the maximum outstanding at any month end during the year was approximately \$132,534,000 and \$80,265,000, respectively.

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

The Company participates in a U.S. Treasury term auction program whereby when the treasury has excess funds, the Company is able to bid on the funds. The term of the borrowings are typically less than 21 days and the interest rate is based on the Company's bid. The following lists the outstanding treasury term borrowings:

(dollars in thousands)	December 31,	
	2005	2004
Outstanding balance.....	\$ 179,000	--
Weighted rate.....	4.29%	--
Maturity date.....	Jan. 3, 2006	--

The Company also has a U.S. Treasury tax and loan account note option program which provides short term funding with no fixed maturity date up to \$19,500,000 at federal funds rates minus 25 basis points. At December 31, 2005 and 2004 the outstanding balance under this program was approximately \$7,382,000 and \$4,354,000. The borrowings are secured with investment securities with a par value of approximately \$27,635,000 and a market value of approximately \$30,769,000. For the year ended December 31, 2005, the maximum outstanding at any month end was approximately \$11,059,000 and the average balance was approximately \$3,685,000.

10. Subordinated Debentures

In connection with the acquisition of Citizens on April 1, 2005, the Company acquired Citizens Trust I. On June 17, 2004, 5,000 shares of trust preferred shares were issued by Citizens Trust I whose common equity is wholly owned by the Company. The Trust Preferred Securities bear a cumulative three month LIBOR plus 2.65% rate adjustable quarterly until maturity on June 17, 2034. Interest distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures of \$5,000,000 at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distribution to the date of redemption.

On March 24, 2004, 45,000 shares of trust preferred shares were issued by Glacier Trust II whose common equity is wholly owned by the Company. The Trust Preferred Securities bear a cumulative fixed interest rate of 5.788% for the first five years and then converts to a three month LIBOR plus 2.75% rate adjustable quarterly for the remaining term until maturity on April 7, 2034. Interest distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures of \$45,000,000 at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption.

On January 25, 2001, 1,400,000 shares of trust preferred shares were issued by Glacier Trust I whose common equity is wholly owned by the Company. The Trust Preferred Securities bear a cumulative fixed interest rate of 9.40%. Interest distributions are payable quarterly. The Trust Preferred Securities were redeemed and the Subordinated Debentures of \$35,000,000 were paid on February 1, 2006. The Subordinated Debentures were replaced by Glacier Trust III ("Glacier Trust III"), which issued \$35,000,000 in subordinated debentures with an interest rate of 6.078%.

On January 31, 2006, 35,000 shares of trust preferred shares were issued by Glacier Trust III whose common equity is wholly owned by the Company. The Trust Preferred Securities bear a cumulative fixed interest rate of 6.078% for the first five years and then converts to a three month LIBOR plus 1.29% rate adjustable quarterly for the remaining term until maturity on April 7, 2036. Interest distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures of \$35,000,000 at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption.

The Company guaranteed the payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by Citizens Trust I, Glacier Trust II, Glacier Trust I and Glacier Trust III. The obligations of the Company under the Subordinated Debentures together with the guarantee and other back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of all trusts under the Trust Preferred Securities.

10. Subordinated Debentures...continued

The Subordinated Debentures with Citizens Trust I are unsecured, bear interest rate of three month LIBOR plus 2.65% per annum and mature on June 17, 2034. The Subordinated Debentures with Glacier Trust II are unsecured, bear interest at a rate of 5.788% per annum for the first five years and then converts to a three month LIBOR plus 2.75% rate adjustable quarterly for the remaining term until maturity on April 7, 2034. The Subordinated Debentures with Glacier Trust I were unsecured, bear interest at a rate of 9.40% per annum. Interest is payable quarterly for all Subordinated Debentures. The Subordinated Debentures with Glacier Trust III are unsecured, bear interest at a rate of 6.078% per annum for the first five years and then converts to a three month LIBOR plus 1.29% rate adjustable quarterly for the remaining term until maturity on April 7, 2036. Interest is payable quarterly for all Subordinated Debentures. The Company may defer the payment of interest at any time from time to time for a period not exceeding 20 consecutive quarters provided that the deferral period does not extend past the stated maturity. During any such deferral period, distributions on the Trust Preferred Securities will also be deferred and the Company's ability to pay dividends on its common shares will be restricted.

Subject to approval by the Federal Reserve Bank, the Trust Preferred Securities may be redeemed at par prior to maturity at the Company's option on or after June 17, 2009 for Citizens Trust I, April 7, 2009 for Glacier Trust II, and April 7, 2011 for Glacier Trust III. On February 1, 2006, with the approval of the Federal Reserve Bank, the Trust Preferred Securities of Glacier Trust I were redeemed. The Trust Preferred Securities may also be redeemed at any time in whole (but not in part) for the Trusts in the event of unfavorable changes in laws or regulations that result in (1) Citizens Trust I, Glacier Trust I or Glacier Trust III becoming subject to federal income tax on income received on the Subordinated Debentures, (2) interest payable by Parent Company on the Subordinated Debentures becoming non-deductible for federal tax purposes, (3) the requirement for the trusts to register under the Investment Company Act of 1940, as amended, or (4) loss of the ability to treat the Trust Preferred Securities as "Tier 1 Capital" under the Federal Reserve capital adequacy guidelines.

11. 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, 2005:

	Actual		Minimum capital requirement		Well capitalized requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital to risk weighted assets						
Consolidated.....	329,289	12.00%	109,724	4.00%	164,585	6.00%
Glacier.....	63,476	11.76%	21,583	4.00%	32,375	6.00%
Mountain West.....	54,415	9.43%	23,078	4.00%	34,617	6.00%
First Security.....	69,758	13.25%	21,066	4.00%	31,599	6.00%
Western.....	44,428	14.97%	11,874	4.00%	17,811	6.00%
First National.....	17,250	11.59%	5,952	4.00%	8,928	6.00%
Big Sky	24,769	10.10%	9,806	4.00%	14,709	6.00%
Valley	19,682	11.56%	6,812	4.00%	10,218	6.00%
Whitefish.....	14,562	10.06%	5,792	4.00%	8,688	6.00%
Citizens.....	12,665	10.35%	4,894	4.00%	7,341	6.00%
Tier 2 (total) capital to risk weighted assets						
Consolidated.....	363,632	13.26%	219,447	8.00%	274,309	10.00%
Glacier.....	69,882	12.95%	43,166	8.00%	53,958	10.00%
Mountain West.....	61,341	10.63%	46,156	8.00%	57,695	10.00%
First Security.....	76,372	14.50%	42,132	8.00%	52,665	10.00%
Western.....	48,150	16.22%	23,749	8.00%	29,686	10.00%
First National.....	19,115	12.85%	11,904	8.00%	14,880	10.00%
Big Sky	27,842	11.36%	19,612	8.00%	24,515	10.00%
Valley	21,783	12.79%	13,624	8.00%	17,030	10.00%
Whitefish.....	16,237	11.21%	11,584	8.00%	14,480	10.00%
Citizens.....	14,199	11.60%	9,788	8.00%	12,235	10.00%
Leverage capital to total average assets						
Consolidated.....	329,289	9.17%	143,692	4.00%	179,615	5.00%
Glacier.....	63,476	9.34%	27,198	4.00%	33,998	5.00%
Mountain West.....	54,415	7.38%	29,487	4.00%	36,859	5.00%
First Security.....	69,758	10.06%	27,732	4.00%	34,665	5.00%
Western.....	44,428	10.36%	17,149	4.00%	21,436	5.00%
First National.....	17,250	6.28%	10,991	4.00%	13,738	5.00%
Big Sky	24,769	9.24%	10,721	4.00%	13,401	5.00%
Valley	19,682	8.00%	9,844	4.00%	12,305	5.00%
Whitefish.....	14,562	8.44%	6,898	4.00%	8,623	5.00%
Citizens.....	12,665	9.51%	5,329	4.00%	6,661	5.00%

11. 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, 2004:

	Actual		Minimum capital requirement		Well capitalized requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital to risk weighted assets						
Consolidated.....	300,475	15.06%	79,800	4.00%	119,700	6.00%
Glacier.....	57,244	13.22%	17,318	4.00%	25,977	6.00%
Mountain West.....	42,992	10.20%	16,861	4.00%	25,292	6.00%
First Security.....	49,798	12.47%	15,978	4.00%	23,967	6.00%
Western.....	43,151	15.38%	11,224	4.00%	16,835	6.00%
Big Sky	18,547	9.22%	8,043	4.00%	12,065	6.00%
Valley	17,674	12.38%	5,711	4.00%	8,567	6.00%
Whitefish.....	12,945	11.67%	4,439	4.00%	6,658	6.00%
Tier 2 (total) capital to risk weighted assets						
Consolidated.....	325,432	16.31%	159,601	8.00%	199,501	10.00%
Glacier.....	62,128	14.35%	34,636	8.00%	43,295	10.00%
Mountain West.....	48,005	11.39%	33,722	8.00%	42,153	10.00%
First Security.....	54,800	13.72%	31,956	8.00%	39,945	10.00%
Western.....	46,675	16.63%	22,447	8.00%	28,059	10.00%
Big Sky	21,064	10.48%	16,087	8.00%	20,108	10.00%
Valley	19,453	13.62%	11,423	8.00%	14,279	10.00%
Whitefish.....	14,325	12.91%	8,877	8.00%	11,097	10.00%
Leverage capital to total average assets						
Consolidated.....	300,475	10.16%	118,271	4.00%	147,839	5.00%
Glacier.....	57,244	8.90%	25,723	4.00%	32,154	5.00%
Mountain West.....	42,992	7.16%	24,027	4.00%	30,033	5.00%
First Security.....	49,798	8.27%	24,093	4.00%	30,117	5.00%
Western.....	43,151	9.67%	17,854	4.00%	22,317	5.00%
Big Sky	18,547	7.88%	9,413	4.00%	11,767	5.00%
Valley	17,674	7.58%	9,325	4.00%	11,656	5.00%
Whitefish.....	12,945	7.75%	6,684	4.00%	8,355	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, 2005 and 2004, 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, 2005 and 2004. There are no conditions or events since year-end that management believes have changed the Company's or subsidiaries capital category.

The subsidiary banks are subject to certain restrictions on the amount of dividends that they may declare without prior regulatory approval. At December 31, 2005, approximately \$89,085,000 of retained earnings was available for dividend declaration without prior regulatory approval.

12. Federal and State Income Taxes

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

(dollars in thousands)	2005	2004	2003
Current:			
Federal.....	\$ 22,099	16,361	13,741
State.....	5,416	4,369	3,690
Total current tax expense	27,515	20,730	17,431
Deferred:			
Federal.....	(1,955)	238	554
State.....	(249)	46	168
Total deferred tax (income) expense	(2,204)	284	722
Total income tax expense	\$ 25,311	21,014	18,153

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

	Years ended December 31,		
	2005	2004	2003
Federal statutory rate.....	35.0%	35.0%	35.0%
State taxes, net of federal income tax benefit	4.3%	4.4%	4.4%
Tax-exempt interest income.....	-5.9%	-7.2%	-6.8%
Other, net.....	-0.8%	-0.2%	-0.3%
	32.6%	32.0%	32.3%

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,	
	2005	2004
Deferred tax assets:		
Allowance for losses on loans.....	\$ 15,786	10,879
Deferred compensation.....	2,372	1,795
Other.....	690	650
Total gross deferred tax assets	18,848	13,324
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends.....	(10,488)	(10,270)
Fixed assets, due to differences in depreciation.....	(3,385)	(2,676)
Intangibles.....	(3,542)	(1,998)
Deferred loan costs.....	(2,076)	(1,602)
Available-for-sale securities fair value adjustment.....	(534)	(3,858)
Other.....	(1,569)	(1,312)
Total gross deferred tax liabilities	(21,594)	(21,716)
Net deferred tax liability	\$ (2,746)	(8,392)

There is no valuation allowance at December 31, 2005 and 2004 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.

12. Federal and State Income Taxes . . . continued

Retained earnings at December 31, 2005 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.

13. Employee Benefit Plans

The Company has a profit sharing plan that has a 3% “safe harbor” provision which is a non-elective contribution by the Company. To be considered eligible for the plan, the employee must be 21 year of age, worked 501 hours in the plan year, and been employed for a full calendar quarter. In addition, elective contributions, depending on the Company’s profitability, are made to the plan. Participants are at all times fully vested in all contributions. The total plan expense for the years ended December 31, 2005, 2004, and 2003 was approximately \$4,057,000, \$3,181,000 and \$3,072,000 respectively.

The Company also has an employees’ savings plan. The plan allows eligible employees to contribute up to 60%, 25% prior to October 1, 2004, 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, 2005, 2004 and 2003 was approximately \$930,000, \$750,000, and \$693,000, 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 \$483,000, \$402,000, and \$236,000, for the years ending December 31, 2005, 2004, and 2003, respectively. Effective January 1, 2005, the participant receives an earnings credit at a rate equal to 50% of the Company’s return on equity. For years prior to 2005 the participant received 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 for the years ended 2005, 2004, and 2003 were approximately \$190,000, \$437,000, and \$364,000, respectively. In connection with several acquisitions, the Company assumed the obligations of a deferred compensation plan for certain key employees. As of December 31, 2005, the liability related to the obligation was approximately \$2,136,000 and was included in other liabilities of the Consolidated Statements of Financial Condition. The amount expensed related to the obligation during 2005 was insignificant.

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. Eligible employees include participants of the non-funded deferred compensation plan and employees whose benefits were limited as a result of IRS regulations. The Company’s required contribution to the SERP for the years ended December 31, 2005, 2004 and 2003 was approximately \$74,000, \$63,000, and \$53,000, respectively.

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

14. Earnings Per Share

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

	For the Years Ended December 31,		
	2005	2004	2003
Net earnings available to common stockholders, basic and diluted..... \$	52,373,000	44,616,000	38,008,000
Average outstanding shares - basic.....	31,295,827	30,565,716	30,110,363
Add: Dilutive stock options.....	596,889	578,353	546,603
Average outstanding shares - diluted.....	<u>31,892,716</u>	<u>31,144,069</u>	<u>30,656,966</u>
Basic earnings per share..... \$	<u>1.67</u>	<u>1.46</u>	<u>1.26</u>
Diluted earnings per share..... \$	<u>1.64</u>	<u>1.43</u>	<u>1.24</u>

There were approximately 148,000 and 1,400 options excluded from the diluted share calculation for December 31, 2005 and 2004, respectively, due to the option exercise price exceeding the market price. There were no options excluded from the diluted share calculation for December 31, 2003 because the market price exceeded the option exercise price as of the end of the year.

15. Stock Option Plans

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 Employees 1995 Stock Option Plan was amended to provide 600,000 additional shares for the Employees Plan. In April, 2002, the Employees 1995 Stock Option Plan was amended to provide 1,000,000 additional shares for the Employees Plan. 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 Employee 1995 Stock Option Plan expired in April 2005.

On April 27, 2005, a Stock Incentive Plan was approved which provided awards limited to 2,500,000 shares to certain full-time employees of the Company, provided that the Company does not issue more than 1,700,000 shares pursuant to awards in a form other than options and share appreciation rights. The Stock Incentive Plan permits the granting of options, share appreciation rights restricted shares, restricted share units, and unrestricted shares, deferred share units, and performance awards.

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 April 1999, the Directors 1994 Stock Option Plan was amended to provide 100,000 additional shares for the Directors Plan. In April, 2002, the Directors 1994 Stock Option Plan was amended to provide 500,000 additional shares for the Directors Plan

The fiscal 1994, 1995, and 2005 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. 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. All option shares are adjusted for stock splits and stock dividends. The term of the options may not exceed five years from the date the options are granted. The employee options vest over a period of two years and the director options vest over a period of six months.

15. Stock Option Plans . . . continued

At December 31, 2005, total shares available for option grants to employees and directors are 3,757,156. Changes in shares granted for stock options for the years ended December 31, 2005, 2004, and 2003, are summarized as follows:

	Options outstanding		Options exercisable	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Balance, December 31, 2002.....	1,569,409	\$ 9.31	919,880	\$ 8.35
Canceled.....	(51,175)	11.35	(8,999)	7.38
Granted.....	558,666	14.16		
Became exercisable.....			435,620	10.48
Exercised.....	<u>(544,173)</u>	8.58	<u>(544,173)</u>	8.58
Balance, December 31, 2003.....	1,532,727	11.28	802,328	9.18
Canceled.....	(63,266)	14.61	(18,959)	8.55
Granted.....	562,823	19.92		
Became exercisable.....			441,299	14.36
Exercised.....	<u>(521,653)</u>	10.42	<u>(521,653)</u>	10.42
Balance, December 31, 2004.....	1,510,631	14.65	703,015	11.61
Canceled.....	(29,882)	21.05	(4,974)	9.77
Granted.....	587,761	25.03		
Became exercisable.....			525,759	16.31
Exercised.....	<u>(398,110)</u>	12.95	<u>(398,110)</u>	12.95
Balance, December 31, 2005.....	<u>1,670,400</u>	18.58	<u>825,690</u>	14.25

The range of exercise prices on options outstanding and exercisable at December 31, 2005 is as follows:

Price range	Options Outstanding	average exercise price	average life of options	Options Exercisable	average exercise price
\$5.19 - \$7.89	142,206	\$6.75	.8 years	142,206	\$6.75
\$8.96 - \$11.40	70,849	9.99	2.2 years	70,849	9.99
\$12.17 - \$13.20	138,713	12.69	1.1 years	138,713	12.69
\$14.09 - \$17.45	290,434	14.27	2.1 years	290,434	14.27
\$19.50 - \$21.24	459,095	20.07	3.1 years	79,786	20.05
\$24.99 - \$28.35	569,103	25.05	4.1 years	103,702	25.00
	<u>1,670,400</u>	18.58	3.1 years	<u>825,690</u>	14.25

The options exercised during the year ended December 31, 2005 were at prices from \$5.19 to \$28.35.

16. 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,	
	2005	2004
Assets:		
Cash	\$ 1,967	3,500
Interest bearing cash deposits	11,125	40,088
Cash and cash equivalents	13,092	43,588
Investment securities, available-for-sale.....	1,302	19,337
Other assets	2,415	3,427
Investment in subsidiaries.....	409,931	290,765
	\$ 426,740	357,117
Liabilities and Stockholders' Equity:		
Dividends payable	\$ 5,151	4,176
Subordinated debentures.....	85,000	80,000
Other liabilities.....	3,350	2,757
Total liabilities.....	93,501	86,933
Common stock	322	307
Paid-in capital.....	262,383	227,552
Retained earnings	69,713	36,391
Accumulated other comprehensive income	821	5,934
Total stockholders' equity.....	333,239	270,184
	\$ 426,740	357,117

Statements of Operations (dollars in thousands)	Years ended December 31,		
	2005	2004	2003
Revenues			
Dividends from subsidiaries.....	\$ 21,950	21,300	17,400
Other income	60	1,088	288
Intercompany charges for services.....	8,365	7,406	6,652
Total revenues.....	30,375	29,794	24,340
Expenses			
Employee compensation and benefits.....	5,144	4,517	4,223
Other operating expenses.....	11,013	9,803	7,573
Total expenses.....	16,157	14,320	11,796
Earnings before income tax benefit and equity in undistributed earnings of subsidiaries.....			
	14,218	15,474	12,544
Income tax benefit.....	(3,386)	(2,316)	(1,937)
Income before equity in undistributed earnings of subsidiaries.....	17,604	17,790	14,481
Subsidiary earnings in excess of dividends distributed.....	34,769	26,826	23,527
Net earnings.....	\$ 52,373	44,616	38,008

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

Statements of Cash Flows (dollars in thousands)	Years ended December 31,		
	2005	2004	2003
Operating Activities			
Net earnings.....	\$ 52,373	44,616	38,008
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Loss on sale of investments available-for-sale.....	451	274	--
Subsidiary earnings in excess of dividends distributed.....	(34,769)	(26,826)	(23,527)
Net increase in other assets and other liabilities.....	4,709	2,359	5,965
Net cash provided by operating activities.....	<u>22,764</u>	<u>20,423</u>	<u>20,446</u>
Investing activities			
Purchases of investment securities available-for-sale.....	--	(35,802)	--
Proceeds from sales, maturities and prepayments of securities available-for-sale.....	17,796	17,227	54
Equity contribution to subsidiary.....	(56,206)	--	(10,377)
Net addition of premises and equipment.....	(949)	(430)	(863)
Net cash used by investing activities.....	<u>(39,359)</u>	<u>(19,005)</u>	<u>(11,186)</u>
Financing activities			
Proceeds from issuance of subordinated debentures.....	--	45,000	--
Cash dividends paid	(19,051)	(16,618)	(14,573)
Proceeds from exercise of stock options and other stock issued.....	5,158	5,439	4,674
Repurchase and retirement of stock.....	--	(1,805)	--
Cash paid for stock dividends.....	(8)	(9)	(15)
Net cash (used) provided by financing activities.....	<u>(13,901)</u>	<u>32,007</u>	<u>(9,914)</u>
Net (decrease) increase (decrease) in cash and cash equivalents.....	(30,496)	33,425	(654)
Cash and cash equivalents at beginning of year.....	43,588	10,163	10,817
Cash and cash equivalents at end of year.....	<u>\$ 13,092</u>	<u>43,588</u>	<u>10,163</u>

17. Unaudited Quarterly Financial Data

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

	Quarters Ended, 2005			
	March 31	June 30	September 30	December 31
Interest income	\$ 40,507	46,545	49,570	53,363
Interest expense.....	12,051	14,458	15,810	17,659
Net interest income.....	28,456	32,087	33,760	35,704
Provision for loan losses.....	1,490	1,552	1,607	1,374
Earnings before income taxes.....	17,000	19,572	20,313	20,799
Net earnings	11,520	13,090	13,575	14,188
Basic earnings per share.....	0.37	0.42	0.43	0.45
Diluted earnings per share.....	0.37	0.41	0.42	0.44
Dividends per share	0.14	0.15	0.15	0.16
Market range high-low	\$27.98-\$23.59	\$26.39-\$21.07	\$31.40-\$25.91	\$33.50-\$28.00

17. Unaudited Quarterly Financial Data...continued

	Quarters Ended, 2004			
	March 31	June 30	September 30	December 31
Interest income	\$ 35,465	35,441	37,640	38,739
Interest expense.....	<u>9,076</u>	<u>9,662</u>	<u>10,255</u>	<u>10,899</u>
Net interest income.....	26,389	25,779	27,385	27,840
Provision for loan losses.....	830	965	1,200	1,200
Earnings before income taxes.....	15,544	15,654	17,333	17,099
Net earnings	10,610	10,763	11,680	11,563
Basic earnings per share.....	0.34	0.35	0.38	0.39
Diluted earnings per share.....	0.34	0.34	0.38	0.37
Dividends per share	0.13	0.13	0.14	0.14
Market range high-low	\$21.63-\$18.88	\$22.60-\$19.59	\$24.28-\$20.60	\$28.71-\$23.12

18. 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)	2005		2004	
	Amount	Fair Value	Amount	Fair Value
Financial Assets:				
Cash on hand and in banks..... \$	111,418	111,418	79,300	79,300
Federal funds sold.....	7,537	7,537	--	--
Interest bearing cash deposits	15,739	15,739	13,007	13,007
Investment securities	328,723	328,723	321,234	321,234
Mortgage-backed securities	585,718	585,718	714,589	714,589
FHLB and FRB stock	53,529	53,529	49,803	49,803
Loans receivable, net.....	2,397,187	2,351,640	1,701,805	1,704,351
Financial Liabilities:				
Deposits	2,534,712	2,533,171	1,729,708	1,731,843
Advances from the FHLB of Seattle.....	402,191	391,128	818,933	811,837
Repurchase agreements and other borrowed funds.....	317,222	317,222	81,215	81,215
Subordinated debentures.....	85,000	83,836	80,000	81,502

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 approximates. 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 is 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 Federal Home Loan Bank of Seattle and Federal Reserve Bank stock is the book value, due to the stocks being restricted because they may only be sold to another member institution or the FHLB or FRB at their par values. The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made.

Financial Liabilities – The estimated fair value of demand and savings deposits is the book value since rates are regularly adjusted to market rates. Certificate accounts fair value is estimated by discounting the future cash flows using current rates for similar deposits. Advances from the Federal Home Loan Bank 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 book value approximates fair value. The subordinated debentures' fair value is based on quoted market prices or comparison pricing to a similar product issued at year-end.

18. Fair Value of Financial Instruments...continued

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.

19. Contingencies and Commitments

The company leases certain land, premises and equipment from third parties under operating and capital leases. Total rent expense for the years ended December 31, 2005, 2004, and 2003 was approximately \$1,334,000 \$1,151,000, and \$1,025,000, respectively. One of the Company's subsidiaries has entered into lease transactions with two of its directors and the related party rent expense for the years ended December 31, 2005, 2004, and 2003 was approximately \$273,000, \$221,000, and \$150,000. The total future minimum rental commitments required under operating and capital leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2005 are as follows (Dollars in thousands):

<u>Years ended December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2006	\$ 189	1,333	1,522
2007	200	1,197	1,397
2008	202	988	1,190
2009	204	781	985
2010	206	706	912
Thereafter	<u>2,630</u>	<u>2,016</u>	<u>4,646</u>
Total minimum lease payments	\$ 3,631	<u>7,021</u>	<u>10,652</u>
Less: Amounts representing interest	<u>1,615</u>		
Present Value of minimum lease payments	2,016		
Less: Current portion of obligations under capital leases	<u>32</u>		
Long-term portion of obligations under capital leases	<u>1,984</u>		

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

The Company has plans to open eight new offices and expand eight existing facilities. The Company has commitments related to the additional locations and upgrades which will incur additional expenses in 2006.

20. Acquisitions

On October 31, 2005, First Security completed the acquisition of Thompson Falls Holding Co. and its subsidiary bank First State Bank, with total assets of \$153 million, loans of \$109 million, and deposits of \$109 million. The bank operates from two banking offices in Thompson Falls and Plains, Montana. A portion of the purchase price was allocated to core deposit intangible of \$914,000 and goodwill of \$7,508,000

On May 20, 2005, Mountain West Bank of Coeur d'Alene completed the acquisition of the Zions National Bank branch in Bonners Ferry, Idaho, with total assets of \$24 million, loans of \$5 million, and deposits of \$24 million. A portion of the purchase price was allocated to core deposit intangible of \$211,000 and goodwill of \$2,154,000.

On April 1, 2005, the Company completed the acquisition of Citizens Bank Holding Company and its subsidiary bank Citizens Community Bank, Pocatello, Idaho, with total assets of \$126 million, loans of \$89 million, and deposits of \$101 million. This bank operates from three banking offices in Pocatello and Idaho Falls, and a loan production office in Rexburg, Idaho, and became the ninth subsidiary bank of the Company. A portion of the purchase price was allocated to core deposit intangible of \$975,000 and goodwill of \$9,553,000.

20. Acquisitions...continued

On February, 28, 2005 the Company completed the acquisition of First National Bank - West, Evanston, Wyoming, with total assets of \$267 million, loans of \$88 million, and deposits of \$225 million. This bank has seven locations in western Wyoming and became the eighth subsidiary bank of the Company and the first to be located in the state of Wyoming. A portion of the purchase price was allocated to core deposit intangible of \$2,446,000 and goodwill of \$22,508,000.

On June 4, 2004, the Company completed the acquisition of the AmericanWest Bancorp.'s branch office in Ione, Washington. The branch had approximately \$15 million in deposits, and became a branch of Mountain West Bank, the Company's Idaho banking subsidiary. In consideration for the assumption of liabilities, the Company received \$14.5 million in cash. A portion of the purchase price was allocated to core deposit intangible of \$148 thousand and goodwill of \$425 thousand.

The acquisitions were accounted for under the purchase method of accounting. Accordingly, the assets and liabilities of the acquired branches were recorded by the Company at their respective fair values at the date of the acquisition and the results of operations have been included with those of the Company since the date of acquisition. The excess of the Company's purchase price over the net fair value of the assets acquired and liabilities assumed, including identifiable intangible assets, was recorded as goodwill.

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 on commercial banking operations. The operating segment defined as "other" includes the Parent company, non-bank 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, 2005, 2004, and 2003.

	(Dollars in thousands)										
	2005	Glacier	Mountain West	First Security	Western	First National	Big Sky	Valley	Whitefish	Citizens	Other
Net interest income	\$ 26,508	29,607	24,839	14,522	8,179	11,540	9,444	6,527	5,013	(6,172)	130,007
Provision for loan losses	(1,500)	(1,897)	(630)	-	(251)	(965)	(375)	(300)	(105)	-	(6,023)
Net interest income after provision for loan losses	25,008	27,710	24,209	14,522	7,928	10,575	9,069	6,227	4,908	(6,172)	123,984
Noninterest income	9,136	15,812	3,990	3,966	2,340	2,475	3,509	1,916	1,902	(420)	44,626
Core deposit amortization	(252)	(214)	(202)	(224)	(371)	(26)	(48)	-	(133)	-	(1,470)
Other noninterest expense	(16,016)	(26,006)	(11,141)	(9,741)	(5,636)	(5,509)	(6,787)	(3,428)	(4,052)	(1,140)	(89,456)
Earnings before income taxes	17,876	17,302	16,856	8,523	4,261	7,515	5,743	4,715	2,625	(7,732)	77,684
Income tax (expense) benefit	(6,096)	(5,886)	(5,505)	(2,488)	(1,401)	(2,819)	(1,783)	(1,698)	(1,022)	3,387	(25,311)
Net income	\$ 11,780	11,416	11,351	6,035	2,860	4,696	3,960	3,017	1,603	(4,345)	52,373
Assets	\$ 731,468	779,538	769,094	431,640	304,196	267,402	254,437	174,069	144,161	(149,661)	3,706,344
Net loans	462,761	544,429	453,814	231,817	111,682	203,869	151,204	125,512	113,222	(1,123)	2,397,187
Goodwill	4,084	23,159	12,165	3,848	22,508	1,752	1,770	260	9,553	-	79,099
Deposits	424,739	558,280	476,253	269,494	244,336	191,040	174,059	112,790	110,023	(26,302)	2,534,712
Stockholders' equity	69,257	80,008	83,447	49,458	41,577	26,581	21,809	14,847	23,029	(76,774)	333,239

21. Operating Segment Information . . . continued

(Dollars in thousands)

2004	Glacier	Mountain West	First Security	Western	Big Sky	Valley	Whitefish	Other	Consolidated
Net interest income	\$ 24,541	22,552	24,372	15,663	9,361	8,959	6,393	(4,448)	107,393
Provision for loan losses	(1,075)	(1,320)	(600)	-	(510)	(440)	(250)	-	(4,195)
Net interest income after provision for loan losses	23,466	21,232	23,772	15,663	8,851	8,519	6,143	(4,448)	103,198
Noninterest income	8,652	12,315	3,684	3,583	2,249	2,940	1,419	(277)	34,565
Core deposit amortization	(276)	(210)	(216)	(279)	(33)	(60)	-	-	(1,074)
Other noninterest expense	(14,980)	(21,290)	(10,184)	(9,016)	(5,190)	(6,020)	(3,280)	(1,099)	(71,059)
Earnings before income taxes	16,862	12,047	17,056	9,951	5,877	5,379	4,282	(5,824)	65,630
Income tax (expense) benefit	(5,704)	(3,769)	(5,572)	(3,039)	(2,157)	(1,632)	(1,457)	2,316	(21,014)
Net income	\$ 11,158	8,278	11,484	6,912	3,720	3,747	2,825	(3,508)	44,616
Assets	\$ 646,523	629,205	626,341	446,502	241,056	241,518	169,411	10,181	3,010,737
Net loans	398,187	382,819	326,826	210,181	161,761	119,626	102,746	(341)	1,701,805
Goodwill	4,084	21,005	4,657	3,848	1,752	1,770	260	-	37,376
Deposits	393,655	431,662	359,918	207,711	132,853	146,660	98,605	(41,356)	1,729,708
Stockholders' equity	64,207	67,002	56,004	49,095	20,567	20,052	13,839	(20,582)	270,184

(Dollars in thousands)

2003	Glacier	Mountain West	First Security	Western	Big Sky	Valley	Whitefish	Other	Consolidated
Net interest income	\$ 22,565	17,061	22,246	13,670	7,264	7,845	5,194	(3,493)	92,352
Provision for loan losses	(375)	(1,124)	(1,250)	-	(250)	(630)	(180)	-	(3,809)
Net interest income after provision for loan losses	22,190	15,937	20,996	13,670	7,014	7,215	5,014	(3,493)	88,543
Noninterest income	8,184	10,206	4,392	4,043	1,729	3,730	1,273	5	33,562
Core deposit amortization	(304)	(205)	(270)	(348)	(41)	(75)	-	-	(1,243)
Other noninterest expense	(14,283)	(17,958)	(9,766)	(8,661)	(4,141)	(5,471)	(3,071)	(1,350)	(64,701)
Earnings before income taxes	15,787	7,980	15,352	8,704	4,561	5,399	3,216	(4,838)	56,161
Income tax (expense) benefit	(5,437)	(2,216)	(5,288)	(2,604)	(1,730)	(1,754)	(1,054)	1,930	(18,153)
Net income	\$ 10,350	5,764	10,064	6,100	2,831	3,645	2,162	(2,908)	38,008
Assets	\$ 595,778	547,035	578,803	446,405	209,342	219,105	149,531	(6,366)	2,739,633
Net loans	330,012	313,021	295,195	196,732	125,664	97,292	72,800	(351)	1,430,365
Goodwill	4,084	20,580	4,657	3,848	1,752	1,770	260	-	36,951
Deposits	358,600	372,936	340,650	219,950	115,496	134,405	68,124	(12,536)	1,597,625
Stockholders' equity	58,703	61,031	49,334	47,242	17,882	18,176	12,126	(26,655)	237,839

22. Subsequent Events

On February 1, 2006, Glacier Trust I redeemed the \$35,000,000 in subordinated debentures which had an interest rate of 9.40%. The subordinated debentures were replaced by Glacier Trust III ("Glacier Trust III"), which issued \$35,000,000 in subordinated debentures with an interest rate of 6.078%. The Company formed Glacier Trust III as a financing subsidiary on January 27, 2006. On January 31, 2006, Glacier Trust III issued 35,000 preferred securities at \$1,000 per preferred security. The purchase of the securities entitles the shareholder to receive cumulative cash distributions at an annual interest rate of 6.078% for the first five years and then converts to a three month LIBOR plus 1.29% rate adjustable quarterly from payments on the junior subordinated debentures of Glacier Bancorp, Inc. The subordinated debentures will mature and the preferred securities must be redeemed by April 7, 2036. In exchange for the Company's capital contribution, the Company owns all of the outstanding common securities of Glacier Trust III.

23. Impact of Recently Issued Accounting Standards

In November 2005, the Financial Accounting Standards Board issued a Staff Position which amends SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities*. The Staff Position addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss.

In May 2005, the Financial Accounting Standards Board issued SFAS No. 154 *Accounting Changes and Errors Corrections* which requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement replaces APB Opinion No. 20 *Accounting Changes*, and SFAS No. 3 *Reporting Accounting Changes in Interim Financial Statements*. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In December 2004, the Financial Accounting Standards Board issued a revised version of SFAS No. 123 *Share-Based Payment*, mandating that companies measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). The intrinsic value method of accounting for such awards, as previously elected by the company and provided for in APB Opinion No. 25, *Accounting for Stock Issued to Employees* will no longer be acceptable under GAAP for public companies as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. If no comparable market values are available, the grant-date fair value of employee share options and similar instruments is to be estimated using option-pricing models adjusted for the unique characteristics of those instruments.

Under the previous provisions of SFAS No. 123, *Accounting for Stock Based Compensation* companies using the intrinsic value method were required to disclose in a footnote to their financial statements the effect on net income of using the intrinsic value rather than the grant-date fair value method. The company has continued to use the intrinsic value method, with appropriate disclosures, in its financial statements through December 31, 2005 (See *Stock Based Compensation* under Note 1 to the company's consolidated financial statements). The company expects to adopt SFAS No. 123 (Revised) effective with its reporting for the first quarter of 2006.

Item 9. Changes in and disagreements with Accountants on Accounting and Financial Disclosure

The Audit Committee of the Board of Directors of the Company approved a change in auditors. At a meeting of the Audit Committee held on June 13, 2005, the Audit Committee appointed BKD, LLP ("BKD") to serve as the Company's independent public accountants, effective June 16, 2005. BKD replaced KPMG LLP ("KPMG").

KPMG performed audits of the Company's consolidated financial statements as of and for each of the years ended December 31, 2003 and 2004. In addition, KPMG performed audits of management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2004.

The audit reports of KPMG on the consolidated financial statements of the Company as of and for the years ended December 31, 2003 and 2004 did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. The audit reports of KPMG on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2004 did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles.

In connection with the audits of the two fiscal years ended December 31, 2004 and the subsequent interim period through June 13, 2005, there were no (1) disagreements between the Company and KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused KPMG to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events, as defined in Item 304(a)(1)(v) of Securities and Exchange (SEC) Regulation S-K.

During the two years ended December 31, 2003 and 2004 and from December 31, 2004 through June 13, 2005, the date on which BKD was selected to be engaged to be the Company's independent accountant, neither the Company nor anyone on its behalf had consulted BKD with respect to any accounting or auditing issues involving the Company. In particular, there was no discussion with

the Company regarding the application of accounting principles to a specified transaction, the type of audit opinion that might be rendered on the financial statements, or any related item. Subsequent to BKD being engaged, there have been no changes or disagreements with accountants on accounting and financial disclosure.

KPMG furnished a letter, addressed to the SEC, stating that they agree with the above statements, except that they were not in a position to agree or disagree with the first paragraph and the last paragraph.

Item 9a. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that as of the end of the period covered by this report, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and timely reported as provided in the SEC's rules and forms. As a result of this evaluation, there were no significant changes in our internal control over financial reporting during the three months ended December 31, 2005 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining effective internal control over financial reporting as it relates to its financial statements presented in conformity with U.S. generally accepted accounting principles. Glacier's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes self monitoring mechanisms and actions are taken to correct deficiencies as they are identified.

There are inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of an internal control system may vary over time.

Management assessed its internal control structure over financial reporting as of December 31, 2005. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The assessment performed by management of its internal control over financial reporting as of December 31, 2005 did not include the following entities which were acquired by the Company during fiscal year 2005: First National Bank – West, First State Bank (which was merged with and into First Security Bank of Missoula), and Citizens Community Bank (collectively, the "Acquisitions"). First National Bank – West, First State Bank and Citizens Community Bank represent approximately 7%, 4%, and 3%, respectively of the assets of the Company on a consolidated basis. Based on this assessment, management asserts that Glacier Bancorp, Inc. and subsidiaries (except those subsidiaries acquired in the Acquisitions) maintained effective internal control over financial reporting as it relates to its financial statements presented in conformity with accounting principles generally accepted in the United States. There was no material change to the internal control over financial reporting as a result of the Acquisitions.

The registered public accounting firm that audited the financial statements, BKD LLP for the year ended December 31, 2005, included in the annual report has issued an attestation report on management's assessment of the company's internal control over financial reporting, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005.

Item 9b. Other Information

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding "Directors and Executive Officers of the Registrant" is set forth under the headings "Business of the Meeting -

Election of Directors – Information with Respect to Nominees and Other Directors - Background of Nominees and Continuing Directors” and “Security Ownership of Certain Beneficial Owners and Management – Executive Officers who are not Directors” of the Company’s 2006 Annual Meeting Proxy Statement (“Proxy Statement”) and is incorporated herein by reference.

Information regarding “Compliance with Section 16(a) of the Exchange Act” is set forth under the section “Compliance with Section 16 (a) Filing Requirements” of the Company’s Proxy Statement and is incorporated herein by reference.

Information regarding the Company’s audit committee financial expert is set forth under the heading “Meetings and Committees of Board of Directors–Committee Membership” in our Proxy Statement and is incorporated by reference.

Consistent with the requirements of Sarbanes-Oxley, the Company has a Code of Ethics applicable to senior financial officers including the principal executive officer. The Code of Ethics can be accessed electronically by visiting the Company’s website at www.glacierbancorp.com.

Item 11. Executive Compensation

Information regarding “Executive Compensation” is set forth under the headings “Meetings and Committees of the Board of Directors - Compensation of Directors” and “Executive Compensation” of the Company’s Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information regarding “Security Ownership of Certain Beneficial Owners and Management” is set forth under the headings “Information with Respect to Nominees and Other Directors,” “Security Ownership of Certain Beneficial Owners and Management – Executive Officers who are not Directors” and “Beneficial Owners” of the Company’s Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information regarding “Certain Relationships and Related Transactions” is set forth under the heading “Transactions with Management” of the Company’s Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information regarding “Principal Accounting Fees and Services” is set forth under the heading “Auditors” of the Company’s Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

List of Financial Statements and Financial Statement Schedules

- (a) (1) and (2) Financial Statements and Financial Statement Schedules

The financial statements and related documents listed in the index set forth in Item 8 of this report are filed as part of this report.

All other schedules to the consolidated financial statements required by Regulation S-X are omitted because they are not applicable, not material or because the information is included in the consolidated financial statements or related notes.

(1) The following exhibits are included as part of this Form 10-K:

<u>Exhibit No.</u>	<u>Exhibit</u>
3(a)	Amended and Restated Certificate of Incorporation (1)
3(b)	Amended and Restated Bylaws (2)
10(a)	1994 Director Stock Option Plan and related agreements (3)
10(b)	1995 Employee Stock Option Plan and related agreements (3)
10(c)	Deferred Compensation Plan effective January 1, 2005 (4)
10(d)	Supplemental Executive Retirement Agreement (4)
10(e)	2005 Stock Incentive Plan and related agreements (5)
10(f)	Employment Agreement dated January 1, 2006 between the Company, Glacier Bancorp, Inc. and Michael J. Blodnick (7)
10(g)	Employment Agreement dated January 1, 2006 between the Company, Glacier Bancorp, Inc. and James H. Strosahl (7)
10(h)	Employment Agreement dated January 1, 2006 between First Security Bank of Missoula and William L. Bouchee (7)
10(i)	Employment agreement dated January 1, 2006, between Mountain West Bank and Jon W. Hippler (7)
14	Code of Ethics (6)
21	Subsidiaries of the Company (See item 1, "Subsidiaries")
23(a)	Consent of BKD LLP (7)
23(b)	Consent of KPMG LLP (7)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (7)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (7)
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002 (7)
(1)	Incorporated by reference to exhibits 3.1, 10.1, 10.2 and 10.3 of the Company's Quarterly Report on form 10-Q for the quarter ended March 31, 2005.
(2)	Incorporated by reference to Exhibit 3.ii included in the Company's Quarterly Report on form 10-Q for the quarter ended June 30, 2004.
(3)	Incorporated by reference to Exhibit 99.1 of the Company's S-8 Registration Statement (No. 333-105995).
(4)	Incorporated by reference to exhibits 10(g) and 10(h) of the Company's Annual Report on Form 10-k for the fiscal year ended December 31, 2004.
(5)	Incorporated by reference to exhibits 99.1 through 99.3 of the Company's S-8 Registration Statement (No. 333-125024).
(6)	Incorporated by reference to Exhibit 14, included in the Company's Form 10-K for the year ended December 31, 2003.
(7)	Exhibit intentionally omitted.

SIGNATURES

PURSUANT to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 15, 2006.

GLACIER BANCORP, INC.

By: /s/ Michael J. Blodnick
Michael J. Blodnick
President/CEO/Director

PURSUANT to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 15, 2006, by the following persons in the capacities indicated.

/s/Michael J. Blodnick
Michael J. Blodnick

President, CEO, and Director
(Principal Executive Officer)

/s/James H. Strosahl
James H. Strosahl

Executive Vice President and CFO
(Principal Financial/Accounting Officer)

Majority of the Board of Directors

/s/ Everit A. Sliter
Everit A. Sliter

Chairman

/s/ James M. English
James M. English

Director

/s/ Allen Fetscher
Allen J. Fetscher

Director

/s/ Jon W. Hippler
Jon W. Hippler

Director

/s/ Craig A. Langel
Craig A. Langel

Director

/s/ L. Peter Larson
L. Peter Larson

Director

/s/ John W. Murdoch
John W. Murdoch

Director