

FIRST INTERSTATE BANCSYSTEM INC
Form 10-K
March 01, 2013

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

FORM 10-K
(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2012

or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 001-34653
FIRST INTERSTATE BANCSYSTEM, INC.

(Exact name of registrant as specified in its charter)

Montana

(State or other jurisdiction of incorporation or
organization)

81-0331430
(IRS Employer Identification No.)

401 North 31st Street
Billings, Montana

59116
(Zip Code)

(Address of principal executive offices)

(406) 255-5390

(Registrant's telephone number, including area code)

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

Class A common stock

NASDAQ Stock Market

(Title of each class)

(Name of each exchange on which registered)

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

Class B common stock

(Title of class)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files). 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 the 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. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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(Do not check if a smaller reporting company)

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

The aggregate market value of voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, was \$265,747,635.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of January 31, 2013:

Class A common stock 17,691,998

Class B common sock 25,639,335

Documents Incorporated by Reference

The registrant intends to file a definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 22, 2013. The information required by Part III of this Form 10-K is incorporated by reference from such Proxy Statement.

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PART I

Item 1. Business

The disclosures set forth in this report are qualified by Item 1A. Risk Factors included herein and the section captioned “Cautionary Note Regarding Forward-Looking Statements and Factors that Could Affect Future Results” included in Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations. When we refer to “we,” “our,” “us” or the “Company” in this annual report, we mean First Interstate BancSystem, Inc. and our consolidated subsidiaries, including our wholly-owned subsidiary, First Interstate Bank, unless the context indicates that we refer only to the parent company, First Interstate BancSystem, Inc. When we refer to the “Bank” in this annual report, we mean First Interstate Bank.

Our Company

We are a financial and bank holding company incorporated as a Montana corporation in 1971. We are headquartered in Billings, Montana. As of December 31, 2012, we had consolidated assets of \$7.7 billion, deposits of \$6.2 billion, loans of \$4.2 billion and total stockholders’ equity of \$751 million. We currently operate 76 banking offices, including detached drive-up facilities, in 42 communities located in Montana, Wyoming and western South Dakota. We also offer internet and mobile banking services. Through our wholly-owned subsidiary, First Interstate Bank, we deliver a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities throughout our market areas. Our customers participate in a wide variety of industries, including energy, healthcare and professional services, education and governmental services, construction, mining, agriculture, retail and wholesale trade and tourism. Our principal markets range in size from 23,000 to 150,000 people, have diversified economic characteristics and favorable population growth prospects and usually serve as trade centers for larger rural areas.

We are the licensee under a perpetual trademark license agreement granting us an exclusive, nontransferable license to use the “First Interstate” name and logo in Montana, Wyoming and the six neighboring states of Idaho, Utah, Colorado, Nebraska, South Dakota and North Dakota.

We have grown our business by adhering to a set of guiding principles and a long-term disciplined perspective that emphasizes our commitment to providing high-quality financial products and services, delivering quality customer service, effecting business leadership through professional and dedicated managers and employees, assisting our communities through socially responsible leadership and cultivating a strong and positive corporate culture. In the future, we intend to remain a leader in our markets by continuing to adhere to the core principles and values that have contributed to our growth and success and by continuing to follow our community banking model. In addition, we plan to continue to expand our business in a disciplined and prudent manner, including organic growth in our existing market areas and expansion into new and complementary markets when appropriate opportunities arise.

Community Banking

Community banking encompasses commercial and consumer banking services provided through our Bank, primarily the acceptance of deposits; extensions of credit; mortgage loan origination and servicing; and trust, employee benefit, investment and insurance services. Our community banking philosophy emphasizes providing customers with commercial and consumer banking products and services locally using a personalized service approach while strengthening the communities in our market areas through community service activities. We grant our banking offices significant authority in delivering and pricing products in response to local market considerations and customer needs. This authority enables our banking offices to remain competitive by responding quickly to local market conditions and enhances their relationships with the customers they serve by tailoring our products and price points to each individual customer’s needs. We also require accountability by having company-wide standards and established

limits on the authority and discretion of each banking office. This combination of authority and accountability allows our banking offices to provide personalized customer service and be in close contact with our communities, while at the same time promoting strong performance at the branch level and remaining focused on our overall financial performance.

Lending Activities

We offer short and long-term real estate, consumer, commercial, agricultural and other loans to individuals and businesses in our market areas. We have comprehensive credit policies establishing company-wide underwriting and documentation standards to assist management in the lending process and to limit our risk. Each loan must meet minimum underwriting

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standards specified in our credit policies. Minimum underwriting standards generally specify that loans (i) are made to borrowers located within a designated geographical lending area with the exception of participation loans and loans to national accounts; (ii) are made only for identified legal purposes; (iii) have specifically identified sources of repayment; (iv) mature within designated maximum maturity periods that coincide with repayment sources; (v) are appropriately collateralized whenever possible, (vi) are supported by current credit information; (vii) do not exceed the Bank's legal lending limit; (viii) with fixed interest rates are adjusted within designated time frames; and (ix) require a flood determination prior to closing. In addition, our minimum underwriting standards include lending limitations to prevent concentrations of credit in agricultural, commercial, real estate or consumer loans. Further, each minimum underwriting standard must be documented as part of the loan approval process.

While each loan must meet minimum underwriting standards established in our credit policies, lending officers are granted certain levels of authority in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area. Lending authorities are established at individual, branch and market levels. Branch and market lending authorities are assigned annually by the Company's chief executive officer and chief credit officer based on the size of the branch or market's loan portfolio and the branch or market's historical credit performance. Individual lending limits are approved annually by branch or market management and are based on the credit ability and experience of each individual officer. Branch and market lending limits and aggregate lending relationships in excess of \$10 million are approved by the Bank's board of directors after review by the Credit Committee of the Company's board of directors.

Deposit Products

We offer traditional depository products including checking, savings and time deposits. Deposits at the Bank are insured by the Federal Deposit Insurance Corporation, or FDIC, up to statutory limits. We also offer repurchase agreements primarily to commercial and municipal depositors. Under repurchase agreements, we sell investment securities held by the Bank to our customers under an agreement to repurchase the investment securities at a specified time or on demand. All outstanding repurchase agreements are due in one business day.

Wealth Management

We provide a wide range of trust, employee benefit, investment management, insurance, agency and custodial services to individuals, businesses and nonprofit organizations. These services include the administration of estates and personal trusts; management of investment accounts for individuals, employee benefit plans and charitable foundations; and insurance planning. As of December 31, 2012, the estimated fair value of trust assets held in a fiduciary or agent capacity was in excess of \$3 billion.

Centralized Services

We have centralized certain operational activities to provide consistent service levels to our customers company-wide, to gain efficiency in management of those activities and to ensure regulatory compliance. Centralized operational activities generally support our banking offices in the delivery of products and services to customers and include marketing; credit review; credit cards; mortgage loan sales and servicing; indirect consumer loan purchasing and processing; loan collections and, other operational activities. Additionally, specialized staff support services have been centralized to enable our branches to serve their markets more efficiently. These services include credit administration, finance, accounting, human resource management, internal audit, technology, risk management, compliance and other support services.

Competition

Banking is highly competitive. We compete with other financial institutions located in Montana, Wyoming, South Dakota and adjoining states for deposits, loans and trust, employee benefit, investment and insurance accounts. We also compete with savings and loan associations, savings banks and credit unions for deposits and loans. In addition, we compete with large banks in major financial centers and other financial intermediaries, such as consumer finance companies, brokerage firms, mortgage banking companies, insurance companies, securities firms, mutual funds and certain government agencies as well as major retailers, all actively engaged in providing various types of loans and other financial services. We generally compete on the basis of customer service and responsiveness to customer needs, available loan and deposit products, rates of interest charged on loans, rates of interest paid for deposits and the availability and pricing of trust, employee benefit, investment and insurance services.

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Employees

At December 31, 2012, we employed 1,683 full-time equivalent employees, none of whom are represented by a collective bargaining agreement. We strive to be the employer of choice in the markets we serve and consider our employee relations to be good.

Regulation and Supervision

Regulatory Authorities

We are subject to extensive regulation under federal and state laws. A description of certain material laws and regulations applicable to us is summarized below. This description is not intended to include a summary of all laws and regulations applicable to us. In addition to laws and regulations, state and federal banking regulatory agencies may issue policy statements, interpretive letters and similar written guidance applicable to us. Those issuances may affect the conduct of our business or impose additional regulatory obligations.

As a financial and bank holding company, we are subject to regulation under the Bank Holding Company Act of 1956, as amended, or the Bank Holding Company Act, and to supervision, regulation and regular examination by the Federal Reserve. Because we are a public company, we are also subject to the disclosure and regulatory requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, as administered by the Securities and Exchange Commission, or SEC.

The Bank is subject to supervision and regular examination by its primary banking regulators, the Federal Reserve and the State of Montana, Department of Administration, Division of Banking and Financial Institutions, with respect to its activities in Wyoming the State of Wyoming, Department of Audit, and with respect to its activities in South Dakota, the State of South Dakota Department of Revenue & Regulation, Division of Banking.

The Bank's deposits are insured by the deposit insurance fund of the FDIC in the manner and to the extent provided by law. The Bank is subject to the Federal Deposit Insurance Act, or FDIA, and FDIC regulations relating to deposit insurance and may also be subject to supervision and examination by the FDIC.

The extensive regulation of the Bank limits both the activities in which the Bank may engage and the conduct of its permitted activities. Further, the laws and regulations impose reporting and information collection obligations on the Bank. The Bank incurs significant costs relating to compliance with various laws and regulations and the collection and retention of information.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enacts significant changes in federal statutes governing banks and bank holding companies generally as well as other entities. Some of the significant changes are already in effect, additional significant changes will become effective in the near-term and other significant changes require action by federal banking agencies, including the Federal Reserve, the principal federal regulator of the Company. Except as otherwise noted, the following discussion assumes that provisions of the Dodd-Frank Act applicable to banks and bank holding companies to become effective in the near-term are currently in effect.

Financial and Bank Holding Company

The Company is a bank holding company and has registered as a financial holding company under regulations issued by the Federal Reserve. Under federal law, including the Dodd-Frank Act, the Company is required to serve as a

source of financial strength to the Bank, which may include providing financial assistance to the Bank if the Bank experiences financial distress. The federal banking agencies are required under the Dodd-Frank Act to issue joint rules to carry out the source of strength requirements. Under existing Federal Reserve source of strength policies, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank. The Federal Reserve may also determine that the bank holding company is engaging in unsafe and unsound practices if it fails to commit resources to such a subsidiary bank.

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We are required by the Bank Holding Company Act to obtain Federal Reserve approval prior to acquiring, directly or indirectly, ownership or control of voting shares of any bank, if, after such acquisition, we would own or control more than 5% of its voting stock. Under the Dodd-Frank Act, when acting on an application for approval the Federal Reserve is required to consider whether the transaction would result in greater or more concentrated risks to the United States banking or financial system. Under federal law and regulations, including the Dodd-Frank Act, a bank holding company may acquire banks in states other than its home state if the bank holding company is both 'well-capitalized' and 'well-managed' both before and after the acquisition. The interstate acquisitions are subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company not control, prior to or following the proposed acquisition, more than 10% of the total amount of deposits of insured depository institutions nationwide or, unless the acquisition is the bank holding company's initial entry into the state, more than 30% of such deposits in the state, or such lesser or greater amount set by state law of such deposits in that state.

With additional changes made to federal statutes under the Dodd-Frank Act, banks are also permitted to establish new branches in a state if a bank located in that state could establish a new branch at the proposed location without regard to state laws limiting interstate de novo branching. Banks may also merge across state lines. A state can prohibit interstate mergers entirely or prohibit them if the continuing bank would control insured bank deposits in excess of a specified percentage of total insured bank deposits in the state, provided such prohibition does not discriminate against out-of-state banks. For example, under Montana law, banks, bank holding companies and their respective subsidiaries cannot acquire control of a bank located in Montana if, after the acquisition, the acquiring institution and its affiliates would directly or indirectly control, in the aggregate, more than 22% of the total deposits of insured depository institutions located in Montana.

We have voluntarily registered with the Federal Reserve as a financial holding company. As a financial holding company, we may engage in certain business activities that are determined by the Federal Reserve to be financial in nature or incidental to financial activities as well as all activities authorized to bank holding companies generally. In most circumstances, we must notify the Federal Reserve of our financial activities within a specified time period following our initial engagement in each business or activity. If the type of proposed business or activity has not been previously determined by the Federal Reserve to be financially related or incidental to financial activities, we must receive the prior approval of the Federal Reserve before engaging in the activity.

We may engage in authorized financial activities, such as providing investment services, provided that we remain a financial holding company and meet certain regulatory standards of being "well capitalized" and "well managed." If we fail to meet the "well capitalized" or "well managed" regulatory standards, we may be required to cease our financial holding company activities or, in certain circumstances, to divest of the Bank. We do not currently engage in significant financial holding company businesses or activities not otherwise permitted for bank holding companies generally. Should we engage in certain financial activities currently authorized to financial holding companies, we may become subject to additional laws, regulations, supervision and examination by regulatory agencies.

In order to assess the financial strength of the bank holding company, the Federal Reserve and the State of Montana also conducts throughout the year periodic onsite and offsite inspections and credit reviews of us. The federal banking agencies, including the Federal Reserve, may also require additional information and reports from us. In addition, the Federal Reserve may examine, and require reports and information regarding, any entity that we control, including entities other than banks or entities engaged in financial activities. In certain circumstances, the Federal Reserve may require us to divest of non-bank entities or limit the activities of those entities even if the activities are otherwise permitted to bank holding companies under governing law.

With limited exceptions, as of July 21, 2011, banks and their affiliates are not permitted to engage in proprietary trading, or invest in, or serve as an advisor to, hedge funds or private equity funds. We have not historically engaged in any of those activities.

Restrictions on Transfers of Funds to Us and the Bank

Dividends from the Bank are the primary source of funds for the payment of our expenses of operating and for the payment of dividends. Under both state and federal law, the amount of dividends that may be paid by the Bank from time to time is limited. In general, the Bank is limited to paying dividends that do not exceed the current year net profits together with retained earnings from the two preceding calendar years unless the prior consents of the Montana and federal banking regulators are obtained.

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A state or federal banking regulator may impose, by regulatory order or agreement of the Bank, specific dividend limitations or prohibitions in certain circumstances. The Bank is not currently subject to a specific regulatory dividend limitation other than generally applicable limitations.

In general, banks are also prohibited from making capital distributions, including dividends and are prohibited from paying management fees to control persons if it would be “undercapitalized” under the regulatory framework for corrective action after making such payments. See “Capital Standards and Prompt Corrective Action.”

Certain restrictive covenants that may exist in future debt instruments may also limit the Bank's ability to make dividend payments to us. Also, under Montana corporate law, a dividend may not be paid if, after giving effect to the dividend: (1) the company would not be able to pay its debts as they become due in the usual course of business; or (2) the company's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the company were to be dissolved at the time of the dividend, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividend.

Furthermore, because we are a legal entity separate and distinct from the Bank, our right to participate in the distribution of assets of the Bank upon its liquidation or reorganization will be subject to the prior claims of the Bank's creditors. In the event of such a liquidation or other resolution, the claims of depositors and other general or subordinated creditors of the Bank are entitled to a priority of payment of the claims of holders of any obligation of the Bank to its shareholders, including us, or our shareholders or creditors.

Restrictions on Transactions with Affiliates, Directors and Officers

Under the Federal Reserve Act, the Bank may not lend funds to, or otherwise extend credit to or for our benefit or the benefit of our affiliates, except on specified types and amounts of collateral and other terms required by state and federal law. The limitation on lending may limit our ability to obtain funds from the Bank for our cash needs, including funds for payment of dividends, interest and operational expenses.

The Federal Reserve also has authority to define and limit the transactions between banks and their affiliates. The Federal Reserve's Regulation W and relevant federal statutes, among other things, impose significant additional limitations on transactions in which the Bank may engage with us, with each other, or with other affiliates.

Federal Reserve Regulation O restricts loans to the Bank and Company insiders, which includes directors, officers and principal stockholders and their respective related interests. All extensions of credit to the insiders and their related interests must be on the same terms as, and subject to the same loan underwriting requirements as, loans to persons who are not insiders. In addition, Regulation O imposes lending limits on loans to insiders and their related interests and imposes, in certain circumstances, requirements for prior approval of the loans by the Bank board of directors.

Capital Standards and Prompt Corrective Action

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Under the Dodd-Frank Act, the federal banking agencies are required to establish, by regulation or order, minimum capital requirements for insured depository organizations and the Federal Reserve is permitted to establish capital

requirements, by regulation or order, for bank holding companies. The minimum capital requirements to be established cannot be less than the minimum capital guidelines in effect when the Dodd-Frank Act was enacted. The Federal Reserve is required to seek to make capital requirements countercyclical by increasing the amount of required capital during times of economic expansion and decreasing the amount of required capital during times of economic contraction. The provisions of the Dodd-Frank Act, together with actions taken by the Basel Committee for the Basel III accords, may result in future regulatory minimum capital requirements that will exceed the regulatory minimum capital guidelines to which we are currently subject.

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In 2012, the Federal Reserve issued several requests for comments on proposed rules that, if adopted, would implement, among other things, the capital guideline requirements under the Dodd-Frank Act. In most circumstances the proposed rules would apply only to bank holding companies or banks with consolidated assets in excess of \$50 billion. Some proposed rules would apply to bank holding companies or banks with consolidated assets in excess of \$10 billion. Because the Company has consolidated assets of less than \$10 billion, none of the proposed rules, if adopted, would apply to the Company or the Bank. Most recently, the Federal Reserve has revoked its prior indications that the capital guideline requirements would be effective on January 1, 2013, and has not yet stated a date when such requirements may become effective. The current proposed guidelines do not apply to companies, such as us, with consolidated assets of less than \$10 billion.

Currently, the Federal Reserve Board and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banks similar in asset size to the Bank. The guidelines are intended to ensure that banks have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. Generally, under the applicable guidelines, a financial institution's capital is divided into two tiers. These tiers are:

Core Capital (tier 1). Tier 1 capital includes common equity, noncumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less both goodwill (adjusted for associated deferred tax liability) and, with certain limited exceptions, all other intangible assets. Bank holding companies, however, may include up to a limit of 25% of cumulative preferred stock in their tier 1 capital.

Supplementary Capital (tier 2). Tier 2 capital includes, among other things, cumulative and limited-life preferred stock, hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt and the allowance for loan and lease losses, subject to certain limitations.

Institutions that must incorporate market risk exposure into their risk-based capital requirements may also have a third tier of capital in the form of restricted short-term subordinated debt.

The Dodd-Frank Act provisions relating to required minimum capital also limit, in certain circumstances, the use of hybrid capital instruments in meeting regulatory capital requirements, including instruments similar to those which we currently have issued and outstanding. However, because our total consolidated assets are substantially less than \$15 billion, the limitations on use of hybrid capital instruments are not expected to apply to us for the foreseeable future.

We, like other bank holding companies, are required under current guidelines to maintain tier 1 capital and total capital (the sum of tier 1 and tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of our total risk-weighted assets. The Bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. For a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action its tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization's tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The current guidelines require a minimum leverage ratio of 3.0% for financial holding companies and banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted capital measure for market risk. All other financial holding companies and

banks are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered “well capitalized” under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

The capital guidelines also provide that banking organizations experiencing significant internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. In addition, the regulations of the bank regulators provide that concentration of credit risks, as well as an institution's ability to manage these risks, are important factors to be taken into account by regulatory agencies in assessing an organization's overall capital adequacy. The Federal Reserve has not advised us of any specific minimum leverage ratio applicable to us or the Bank.

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The FDIA requires, among other things, the federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the tier 1 capital ratio and the leverage ratio.

Under the regulations adopted by the federal regulatory authorities, a bank will be: (1) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 5.0% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (2) “adequately capitalized” if the institution has a total risk-based capital ratio of 8.0% or greater, a tier 1 risk-based capital ratio of 4.0% or greater and a leverage ratio of 4.0% or greater (3.0% in certain circumstances) and is not “well capitalized”; (3) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0% (3.0% in certain circumstances); (4) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (5) “critically undercapitalized” if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. Our regulatory capital ratios and those of the Bank are in excess of the levels established for “well capitalized” institutions. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of (1) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and (2) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.”

“Significantly undercapitalized” depository institutions may be subject to a number of requirements and restrictions, including mandated capital raising activities such as orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, restrictions for interest rates paid, removal of management and cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator.

A bank that is not “well-capitalized” as defined by applicable regulations may, among other regulatory requirements or limitations, be prohibited under federal law and regulation from accepting or renewing brokered deposits.

The capital stock of banks organized under Montana law, such as the Bank, may be subject to assessment upon the direction of the Montana Department of Administration under the Montana Bank Act. Under the Montana Bank Act,

if the Department of Administration determines an impairment of a bank's capital exists, it may notify the bank's board of directors of the impairment and require the impairment be made good by an assessment on the bank stock. If the bank fails to make good the impairment, the Department of Administration may, among other things, take charge of the bank and proceed to liquidate the bank.

Under FDIA, the appropriate federal banking agency may take certain actions with respect to significantly or critically undercapitalized institutions. The actions may include requiring the sale of additional shares of the institution's stock or other actions deemed appropriate by the federal banking agency, which could include assessment on the institution's stock.

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Safety and Soundness Standards and Other Enforcement Mechanisms

The federal banking agencies have adopted guidelines establishing standards for safety and soundness, asset quality and earnings, internal controls and audit systems, among others, as required by the Federal Deposit Insurance Corporation Improvement Act, or FDICIA. These standards are designed to identify potential concerns and ensure that action is taken to address those concerns before they pose a risk to the deposit insurance fund, or DIF. If a federal banking agency determines that an institution fails to meet any of these standards, the agency may require the institution to submit an acceptable plan to achieve compliance with the standard. If the institution fails to submit an acceptable plan within the time allowed by the agency or fails in any material respect to implement an accepted plan, the agency must, by order, require the institution to correct the deficiency.

Federal banking agencies possess broad enforcement powers to take corrective and other supervisory action on an insured bank and its holding company. Moreover, federal laws require each federal banking agency to take prompt corrective action to resolve the problems of insured banks. Bank holding companies and insured banks are subject to a wide range of potential enforcement actions by federal regulators for violation of any law, rule, regulation, standard, condition imposed in writing by the regulator, or term of a written agreement with the regulator.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. The maximum deposit insurance amount is \$250,000 per depositor. In addition, certain non-interest bearing deposit accounts were accorded unlimited insurance until December 31, 2012. Effective January 1, 2013, those accounts are subject to the general \$250,000 deposit insurance limitation. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

All FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation, or FICO, an agency of the Federal government established to recapitalize the predecessor to the DIF. The FICO assessment rates are set at 0.00165% of total assets and will continue until the FICO bonds mature in 2017.

On November 17, 2009, the FDIC imposed a prepayment requirement on most insured depository organizations, requiring that the organizations prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 and for each calendar quarter for calendar years 2010, 2011 and 2012. The Bank's prepayment of FDIC insurance premiums will continue through March 31, 2013 and any excess prepayment will be refunded to the Bank on June 28, 2013. Beginning April 1, 2013, the Bank will again be subject to assessments for FDIC insurance premiums. The estimated annualized premium amount for 2013 is approximately \$6 million.

As required by the Dodd-Frank Act the FDIC changed its method of assessment of insurance premiums effective as of April 1, 2011 to an assessment based on the average total consolidated assets of the insured depository institution less the institutions average tangible equity for the assessment period and made other adjustments to the assessment calculation methods. The changes reduced the deposit insurance premium paid by the Bank from the amounts paid under the prior assessment method based on total deposits.

The FDIC is also required to set its designated reserve ratio for each year at 1.35% of estimated insured deposits and take actions necessary to reach a reserve ratio of 1.35% of total estimated insured deposits by September 30, 2020. The FDIC may be required to increase deposit insurance premium assessments to meet the reserve ratio requirements.

However, under the Dodd-Frank Act, the effects of any increases in deposit insurance premium assessments are to be offset for the benefit of depository institutions with total consolidated assets of less than \$10 billion. The Bank currently has total consolidated assets of less than \$10 billion.

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Insolvency of an Insured Depository Institution

If the FDIC is appointed the conservator or receiver of an insured depository institution upon its insolvency or in certain other events, the FDIC has the power, among other things: (1) to transfer any of the depository institution's assets and liabilities to a new obligor without the approval of the depository institution's creditors; (2) to enforce the terms of the depository institution's contracts pursuant to their terms; or (3) to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmation or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Customer Privacy and Other Consumer Protections

Federal law imposes customer privacy requirements on any company engaged in financial activities, including the Bank and us. Under these requirements, a financial company is required to protect the security and confidentiality of customer nonpublic personal information. In addition, for customers who obtain a financial product such as a loan for personal, family or household purposes, a financial holding company is required to disclose its privacy policy to the customer at the time the relationship is established and annually thereafter. The financial company must also disclose its policies concerning the sharing of the customer's nonpublic personal information with affiliates and third parties. Finally, a financial company is prohibited from disclosing an account number or similar item to a third party for use in telemarketing, direct mail marketing or marketing through electronic mail.

The Bank is subject to a variety of federal and state laws, regulations and reporting obligations aimed at protecting consumers and Bank customers. Failure to comply with these laws and regulations may, among other things, impair the collection of loans made in violation of the laws and regulations, provide borrowers or other customers certain rights and remedies or result in the imposition of penalties on the Bank.

The Equal Credit Opportunity Act generally prohibits discrimination in credit transactions on, among other things, the basis of race, color, religion, national origin, sex, marital status or age and, in certain circumstances, limits the Bank's ability to require co-obligors or guarantors as a condition to the extension of credit to an individual.

The Real Estate Settlement Procedures Act, or RESPA, requires certain disclosures be provided to borrowers in real estate loan closings or other real estate settlements. In addition, RESPA limits or prohibits certain settlement practices, fee sharing, kickbacks and similar practices that are considered to be abusive.

The Truth in Lending Act, or TILA, and Regulation Z require disclosures to borrowers and other parties in consumer loans including, among other things, disclosures relating to interest rates and other finance charges, payments and payment schedules and annual percentage rates. TILA provides remedies to borrowers upon certain failures in compliance by a lender.

The Fair Housing Act regulates, among other things, lending practices in residential lending and prohibits discrimination in housing related lending activities on the basis of race, color, religion, national origin, sex, handicap, disability or familial status.

The Home Mortgage Disclosure Act requires certain lenders and other firms engaged in the home mortgage industry to collect and report information relating to applicants, borrowers and home mortgage lending activities in which they engage in their market areas or communities. The information is used for, among other purposes, evaluation of discrimination or other impermissible acts in home mortgage lending.

The Home Ownership and Equity Protection Act regulates terms and disclosures of certain closed end home mortgage loans that are not purchase money loans and includes loans classified as “high cost loans.”

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The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, generally limits lenders and other financial firms in their collection, use or dissemination of customer credit information, gives customers some access to, and control over, their credit information and requires financial firms to establish policies and procedures intended to deter identity theft and related frauds.

The Fair Debt Collection Practices Act regulates actions that may be taken in the collection of consumer debts and provides consumers with certain rights of access to information related to collection actions.

The Electronic Fund Transfer Act regulates fees and other terms on electronic funds transactions. On November 17, 2009, the Federal Reserve Board published a final rule amending Regulation E, which implements the Electronic Fund Transfer Act. Effective July 1, 2010 for new accounts and August 15, 2010 for existing accounts, this rule generally prohibits financial institutions from charging an overdraft fee for automated teller machine and one-time debit card transactions that overdraw a consumer deposit account, unless the customer opts in to having the overdrafts authorized and paid.

The Federal Reserve issued regulations relating to fees and charges in debit card transactions intended to implement provisions of the Dodd-Frank Act. Card issuers with consolidated assets of less than \$10 billion are exempt from the interchange fee standards but are subject to other rules addressing exclusivity and other requirements. The Bank is not subject to the interchange fee standards as its consolidated assets, together with affiliates, are less than \$10 billion.

Federal consumer protection laws have been expanded by the Dodd-Frank Act, pursuant to which a Bureau of Consumer Protection has been created with authority to regulate consumer financial products and services and to implement and enforce federal consumer financial laws. Although the Bureau is accorded examination and enforcement authority, the Bureau's authority does not generally extend to depository institutions with total assets of less than \$10 billion. The Bank currently has total assets of less than \$10 billion.

The Community Reinvestment Act, or CRA, generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of fair lending laws, the federal banking agencies may take compliance with such laws and the CRA into account when regulating and supervising our other activities or in authorizing new activities.

In connection with its assessment of CRA performance, the appropriate bank regulatory agency assigns a rating of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank received an "outstanding" rating on its most recent published examination. Although the Bank's policies and procedures are designed to achieve compliance with all fair lending and CRA requirements, instances of non-compliance are occasionally identified through normal operational activities. Management responds proactively to correct all instances of non-compliance and implement procedures to prevent further violations from occurring.

USA PATRIOT Act

The USA PATRIOT Act of 2001 amended the Bank Secrecy Act of 1970 and the Money Laundering Control Act of 1986 and adopted additional measures requiring insured depository institutions, broker-dealers and certain other financial institutions to have policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The USA PATRIOT Act includes the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 and also amends laws relating to currency control and regulation. The laws and related regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and

financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition or merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution. The USA PATRIOT Improvement and Reauthorization Act of 2005, among other things, made permanent or otherwise generally extended the effectiveness of provisions applicable to financial institutions.

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Office of Foreign Asset Control

The United States Treasury Office of Foreign Asset Control enforces economic and trade sanctions imposed by the United States on foreign persons and governments. Among other authorities, the Office of Foreign Asset Control may require United States financial institutions to block or “freeze” assets of identified foreign persons or governments which come within the control of the financial institution. Financial institutions are required to adopt procedures for identification of new and existing deposit accounts and other relationships with persons or governments identified by the Office of Foreign Asset Control and to timely report the accounts or relationships to the Office of Foreign Asset Control.

Website Access to SEC Filings

All of our reports and statements filed or furnished electronically with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Proxy Statements, as well as amendments to these reports and statements filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are accessible at no cost through our website at www.FIBK.com as soon as reasonably practicable after they have been filed with the SEC. These reports are also accessible on the SEC’s website at www.sec.gov. The public may read and copy materials we file with the SEC at the public reference facilities maintained by the SEC at Room 1580, 100 F Street N.E., Washington, DC 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our website and the information contained therein or connected thereto is not intended to be incorporated into this report and should not be considered a part of this report.

Item 1A. Risk Factors

Like other financial and bank holding companies, we are subject to a number of risks, many of which are outside of our control. If any of the events or circumstances described in the following risk factors actually occurs, our business, financial condition, results of operations and prospects could be harmed. These risks are not the only ones that we may face. Other risks of which we are not aware, including those which relate to the banking and financial services industry in general and us in particular, or those which we do not currently believe are material, may harm our future business, financial condition, results of operations and prospects. Readers should consider carefully the following important factors in evaluating us, our business and an investment in our securities.

Risks Relating to the Market and Our Business

Continued or worsening general business and economic conditions could materially and adversely affect us.

Our business and operations are sensitive to general business and economic conditions in the United States. If U.S. economic conditions worsen, our growth and profitability could be adversely affected. Weak economic conditions may be characterized by deflation, fluctuations in debt and equity capital markets, including a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. All of these factors would be detrimental to our business.

In addition, significant concern regarding the creditworthiness of some of the governments in Europe has contributed to volatility in financial markets in Europe and globally, and to funding pressures on some globally active European banks, leading to greater investor and economic uncertainty worldwide. A failure to adequately address sovereign debt concerns in Europe could hamper economic recovery or contribute to a return to recessionary economic conditions

and severe stress in the financial markets, including in the United States.

Our business is also significantly affected by monetary and related policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control, are difficult to predict and could have a material adverse effect on our business, financial position, results of operations and cash flows.

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Adverse economic conditions affecting Montana, Wyoming and western South Dakota could harm our business.

Our customers are located predominantly in Montana, Wyoming and western South Dakota. Because of the concentration of loans and deposits in these states, existing or future adverse economic conditions in Montana, Wyoming or western South Dakota could cause us to experience higher rates of loss and delinquency on our loans than if the loans were more geographically diversified. In the future, adverse economic conditions, including inflation, recession and unemployment and other factors, such as regulatory or business developments, natural disasters, wide-spread disease, terrorist activity, environmental contamination and other unfavorable conditions and events that affect these states, could reduce demand for credit or fee-based products and may delay or prevent borrowers from repaying their loans. Adverse conditions and other factors identified above could also negatively affect real estate and other collateral values, interest rate levels and the availability of credit to refinance loans at or prior to maturity. These results could adversely impact our business, financial condition, results of operations and cash flows.

We may incur significant credit losses, particularly in light of recent and existing market conditions.

We take on credit risk by virtue of making loans and extending loan commitments and letters of credit. Our credit standards, procedures and policies may not prevent us from incurring substantial credit losses, particularly in light of market developments in recent years. Weakening economic conditions, increasing unemployment rates and/or deterioration of housing markets could exert pressure on our loan customers resulting in higher delinquencies, repossession and losses, which would have an adverse impact on our business, financial condition, results of operations and prospects.

Our concentration of real estate loans subjects us to increased risks in the event real estate values continue to decline due to the economic recession, a further deterioration in the real estate markets or other causes.

At December 31, 2012, we had approximately \$2.7 billion of commercial, agricultural, construction, residential and other real estate loans, representing approximately 64% of our total loan portfolio. The recent economic recession, deterioration in the real estate markets and increasing delinquencies and foreclosures have had an adverse effect on the collateral value for many of our loans and on the repayment ability of many of our borrowers. The continuation or further deterioration of these factors, including increasing foreclosures and unemployment, will continue to have the same or similar adverse effects. In addition, these factors could reduce the amount of loans we make to businesses in the construction and real estate industry, which could negatively impact our interest income and results of operations. A continued decline in real estate values could also lead to higher charge-offs in the event of defaults in our real estate loan portfolio. Similarly, the occurrence of a natural or manmade disaster in our market areas could impair the value of the collateral we hold for real estate secured loans. Any one or a combination of the factors identified above could negatively impact our business, financial condition, results of operations and prospects.

Many of our loans are to commercial borrowers, which have a higher degree of risk than other types of loans.

Commercial loans, including commercial real estate loans, are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is more sensitive than other types of loans to adverse conditions in the real estate market or the general economy. Accordingly, the downturn in the real estate market and economy has heightened our risk related to commercial loans, particularly commercial real estate loans. Unlike residential mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. If the cash flow from business operations is reduced, the borrower's ability to

repay the loan may be impaired. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as the collateral which is generally less readily-marketable, losses incurred on a small number of commercial loans could have a material adverse impact on our financial condition and results of operations. At December 31, 2012, we had \$2.2 billion of commercial loans, including \$1.5 billion of commercial real estate loans, representing approximately 52% of our total loan portfolio.

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If we experience loan losses in excess of estimated amounts, our earnings will be adversely affected.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. We maintain an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of loan portfolio quality. Based upon such factors, our management makes various assumptions and judgments about the ultimate collectability of our loan portfolio and provides an allowance for loan losses. These assumptions and judgments are complex and difficult to determine given the significant uncertainty surrounding future conditions in the general economy and banking industry. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate, or if the banking authorities or regulations require us to increase the allowance for loan losses, our earnings, financial condition, results of operations and prospects could be significantly and adversely affected.

Our goodwill may become impaired, which may adversely impact our results of operations and financial condition and may limit our Bank's ability to pay dividends to us, thereby causing liquidity issues.

The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely impairment has occurred. In testing for impairment, the fair value of net assets is estimated based on analyses of our market value, discounted cash flows and peer values. Consequently, the determination of the fair value of goodwill is sensitive to market-based economics and other key assumptions. Variability in market conditions or in key assumptions could result in impairment of goodwill, which is recorded as a noncash adjustment to income. An impairment of goodwill could have a material adverse effect on our business, financial condition and results of operations. As of December 31, 2012, we had goodwill of approximately \$184 million, or 24% of our total stockholders' equity. Furthermore, an impairment of goodwill could cause our Bank to be unable to pay dividends to us. If our Bank is unable to pay dividends to us, our cash flow and liquidity would be reduced. See below "Our Bank's ability to pay dividends to us is subject to regulatory limitations, which, to the extent we are not able to receive such dividends, may impair our ability to grow, pay dividends, cover operating expenses and meet debt service requirements."

Changes in interest rates could negatively impact our net interest income, may weaken demand for our products and services or harm our results of operations and cash flows.

Our earnings and cash flows are largely dependent upon net interest income, which is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also adversely affect (1) our ability to originate loans and obtain deposits, (2) the fair value of our financial assets and liabilities, including mortgage servicing rights, (3) our ability to realize gains on the sale of assets and (4) the average duration of our mortgage-backed investment securities portfolio. An increase in interest rates may reduce customers' desire to borrow money from us as it increases their borrowing costs and may adversely affect the ability of borrowers to pay the principal or interest on loans which may lead to an increase in non-performing assets and a reduction of income recognized, which could harm our results of operations and cash flows. Further, because many of our variable rate loans contain interest rate floors, as market interest rates begin to rise, the interest rates on these loans may not increase correspondingly. In contrast, decreasing interest rates have the effect of causing customers to refinance mortgage loans faster than anticipated. This causes the value of assets related to the servicing rights on mortgage loans sold to be lower than originally recognized. If this happens, we may need to write down our

mortgage servicing rights assets faster, which would accelerate expense and lower our earnings. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our cash flows, financial condition and results of operations. If the current low interest rate environment continues for a prolonged period, our interest income could decrease, adversely impacting our financial condition, results of operations and cash flows.

We may not continue to have access to low-cost funding sources.

We depend on checking and savings, negotiable order of withdrawal, or NOW, and money market deposit account balances and other forms of customer deposits as our primary source of funding. Such account and deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income.

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Our deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC insured depository institutions, including the Bank. Under current FDIC regulations, each insured depository institution is subject to a risk-based assessment system and, depending on its assigned risk category, is assessed insurance premiums based on average total assets less average tangible equity, with adjustments for brokered deposits, unsecured debt and for custodial banks and banks that primarily provide services to other banks. The FDIC charges insured financial institutions premiums to maintain the Depositors Insurance Fund or DIF at a certain level. Bank failures have substantially reduced the DIF's reserves. The FDIC has published and amended a restoration plan designed to replenish the DIF and to increase the deposit insurance reserve ratio through 2015. To implement the restoration plan, the FDIC has adopted a series of initiatives that have changed its risk-based assessment system, increased its base assessment rates and imposed special assessments. A change in the risk category assigned to our Bank, further adjustments to base assessment rates and additional special assessments could have a material adverse effect on our earnings, financial condition and results of operation.

We may be required to repurchase mortgage loans or reimburse investors as a result of breaches in contractual representations and warranties.

We sell residential mortgage loans to various parties. The agreements under which we sell these loans contain various representations and warranties regarding the origination and characteristics of the loans, including ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, absence of delinquent taxes or liens against the property securing the loan, and compliance with applicable origination laws. We may be required to repurchase mortgage loans, indemnify the investor or reimburse the investor for credit losses incurred on these loans in the event of a breach of contractual representations or warranties that is not remedied within a period, usually 90 days or less, after we receive notice of the breach. Similarly, the agreements under which we sell mortgage loans require us to deliver various documents to the investor, and we may be obligated to repurchase loans for which the required documents are not delivered or are defective. The level of mortgage loan repurchase depends upon certain factors that may be out of our control, including economic factors, investor demand strategies and other external conditions that may change over the life of the underlying loan. If economic conditions deteriorate or housing markets decline, future investor repurchase demands may increase. Our failure to successfully appeal repurchase requests could materially and adversely affect our business, financial condition, results of operations and prospects. We had approximately \$20 million of sold residential mortgage loans with recourse provisions in effect as of December 31, 2012.

We may not be able to continue growing our business.

Our total assets have grown from \$6.6 billion as of December 31, 2008 to \$7.7 billion as of December 31, 2012. Our ability to grow depends, in part, upon our ability to successfully attract deposits, identify favorable loan and investment opportunities, open new branch banking offices and expand into new and complementary markets when appropriate opportunities arise. In the event we do not continue to grow, our results of operations could be adversely impacted.

Our ability to successfully grow depends on our capital resources and whether we can continue to fund growth while maintaining cost controls and asset quality, as well as on other factors beyond our control, such as national and regional economic conditions and interest rate trends. If we are not able to make loans, attract deposits and maintain asset quality due to constrained capital resources or other reasons, we may not be able to continue growing our business, which could adversely impact our earnings, financial condition, results of operations, and prospects.

We are subject to significant governmental regulation and new or changes in existing regulatory, tax and accounting rules and interpretations could significantly harm our business.

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a financial company's stockholders. These regulations may impose significant limitations on operations. The significant federal and state banking regulations that affect us are described in this report under the heading "Regulation and Supervision." These regulations, along with the currently existing tax, accounting, securities, insurance, employment, monetary and other laws and regulations, rules, standards, policies and interpretations control the methods by which we conduct business, implement strategic initiatives and tax compliance and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are undergoing

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significant review and changes, particularly given the recent market developments in the banking and financial services industries and the enactment of the Dodd-Frank Act.

Recent events have resulted in legislators, regulators and authoritative bodies, such as the Financial Accounting Standards Board, the Securities and Exchange Commission, or SEC, the Public Company Accounting Oversight Board and various taxing authorities responding by adopting and/or proposing substantive revisions to laws, regulations, rules, standards, policies and interpretations. Further, federal monetary policy as implemented through the Federal Reserve can significantly affect credit conditions in our markets.

The nature, extent and timing of the adoption of significant new laws, regulations, rules, standards, policies and interpretations, or changes in or repeal of these items or specific actions of regulators, may increase our costs of compliance and harm our business. For example, potential increases in or other modifications affecting regulatory capital thresholds could impact our status as “well capitalized.” We may not be able to predict accurately the extent of any impact from changes in existing laws, regulations, rules, standards, policies and interpretations.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 will result in sweeping changes in the regulation of financial institutions and could have a material adverse effect on our business.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was signed into law. The Dodd-Frank Act will result in sweeping changes in the regulation of financial institutions, and contains numerous provisions that will affect all banks and bank holding companies. Many of these and other provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known.

Although we cannot predict the specific impact and long-term effects that the Dodd-Frank Act will have on us and the financial industry in general, we believe the Dodd-Frank Act and the regulations promulgated thereunder will result in additional administrative burdens that will obligate us to incur additional costs and expenses. Provisions of the Act that affect the treatment of our existing trust preferred securities as Tier 1 capital will be grandfathered under the Act; however, provisions of the Act that revoke Tier 1 capital treatments of trust preferred securities and otherwise require revisions to capital requirements may cause us to seek other sources of capital in the future. Furthermore, the Dodd-Frank Act could limit the types of financial services and products we may offer, increase the ability of non-banks to offer competing financial services and products, reduce interchange fees, require us to renegotiate payment network agreements or enter into multiple payment network agreements, require a significant amount of management's time and attention, and otherwise adversely impact our business, financial condition, results of operations and prospects.

Non-compliance with laws and regulations could result in fines, sanctions and other enforcement actions and the loss of our financial holding company status.

Federal and state regulators have broad enforcement powers. If we fail to comply with any laws, regulations, rules, standards, policies or interpretations applicable to us, we could face various sanctions and enforcement actions, which include:

- the appointment of a conservator or receiver for us;
- the issuance of a cease and desist order that can be judicially enforced;
 - the termination of our deposit insurance;
- the imposition of civil monetary fines and penalties;

- the issuance of directives to increase capital;
- the issuance of formal and informal agreements;
- the issuance of removal and prohibition orders against officers, directors and other institution-affiliated parties; and
- the enforcement of such actions through injunctions or restraining orders

The imposition of any such sanctions or other enforcement actions could adversely impact our earnings, financial condition, results of operations and prospects. Furthermore, as a financial holding company, we may engage in authorized financial activities provided we are in compliance with applicable regulatory standards and guidelines. If we fail to meet such standards and guidelines, we may be required to cease certain financial holding company activities and, in certain circumstances, to divest the Bank.

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The effects of recent legislative and regulatory efforts are uncertain.

In response to market disruptions, legislators and financial regulators implemented a number of initiatives designed to stabilize and improve the financial markets, some of which have been implemented and some of which have not, including:

- direct and indirect assistance to distressed financial institutions and the provision of assistance by the banking authorities in arranging acquisitions of weakened banks and broker-dealers;
- legislation that provided economic stimulus funding and liquidity to the financial markets, including the Troubled Asset Relief Program Capital Purchase Program;
- programs by the Federal Reserve to provide liquidity to the commercial paper markets, stimulus to increase commercial and consumer based lending, and successive rounds of quantitative easing;
- proposed guidance by the Federal Reserve on incentive compensation policies at banking organizations;
- proposals and recent judicial decisions limiting a lender's ability to foreclose on mortgages or make such foreclosures less economically viable, including by allowing Chapter 13 bankruptcy plans to “cram down” the value of certain mortgages on a consumer's principal residence to its market value and/or reset interest rates and monthly payments to permit defaulting debtors to remain in their home; and
- enactment of the Dodd-Frank Act.

These initiatives may increase our expenses or decrease our income by, among other things, making it harder for us to foreclose on mortgages and impacting the amount of overdraft fees we will be able to charge. Further, the overall effects of these and other legislative and regulatory efforts on the financial markets remain uncertain and they may not have the intended results. These efforts may even have unintended harmful consequences on the U.S. financial system and our business. Should these or other legislative or regulatory initiatives have unintended effects, our business, financial condition, results of operations and prospects could be materially and adversely affected. In addition, we may need to further modify our strategies and business operations in response to these initiatives. We may also incur increased capital requirements and constraints or additional costs in order to satisfy new regulatory requirements. Given the volatile nature of the current market and the uncertainties underlying efforts to mitigate or reverse disruptions, we may not timely anticipate or manage existing, new or additional risks, contingencies or developments in the current or future environment. Our failure to do so could materially and adversely affect our business, financial condition, results of operations and prospects.

We are dependent upon the services of our management team and directors.

Our future success and profitability is substantially dependent upon the management skills of our executive officers and directors, many of whom have held officer and director positions with us for many years. We do not currently have employment agreements or non-competition agreements with any of our key executives. The unanticipated loss or unavailability of key employees could harm our ability to operate our business or execute our business strategy. We cannot assure you that we will be successful in retaining these key employees or finding and integrating suitable successors in the event of their loss or unavailability.

We may not be able to attract and retain qualified employees to operate our business effectively.

There is substantial competition for qualified personnel in our markets. Although unemployment rates have been declining in Montana and Wyoming, and the surrounding region, it may still be difficult to attract and retain qualified employees at all management and staffing levels. Failure to attract and retain employees and maintain adequate staffing of qualified personnel could adversely impact our operations and our ability to execute our business strategy. Furthermore, relatively low unemployment rates in certain of our markets, compared with national unemployment

rates, may lead to significant increases in salaries, wages and employee benefits expenses as we compete for qualified, skilled employees, which could negatively impact our results of operations and prospects.

We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have a material adverse effect on us.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. We outsource many of our major systems, such as certain data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could

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experience service disruptions if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service disruption could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us, our financial condition, results of operations and cash flows.

In addition, we provide our customers with the ability to bank remotely, including online and over the telephone. The secure transmission of confidential information over the internet and other remote channels is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other internal and external security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could materially and adversely affect us, our financial condition, results of operations and cash flows.

Our operations rely on certain external vendors.

We are reliant upon certain external vendors to provide products and services necessary to maintain our day-to-day operations. In addition, we are subject to certain long-term vendor contracts that limit our flexibility and increase our dependence on third party vendors. Failure of certain external vendors to perform in accordance with contractual arrangements could be disruptive to our operations and limit our ability to provide certain products and services demanded by our customers, which could have material adverse impact on our financial condition or results of operations.

We are subject to liquidity risks.

Liquidity is the ability to meet current and future cash flow needs on a timely basis at a reasonable cost. Our liquidity is used to make loans and to repay deposit liabilities as they become due or are demanded by customers. Potential alternative sources of liquidity include federal funds purchased and securities sold under repurchase agreements. We maintain a portfolio of investment securities that may be used as a secondary source of liquidity to the extent the securities are not pledged for collateral. Other potential sources of liquidity include the sale of loans, the utilization of available government and regulatory assistance programs, the ability to acquire national market, non-core deposits, the issuance of additional collateralized borrowings such as Federal Home Loan Bank, or FHLB, advances, the issuance of debt securities, issuance of equity securities and borrowings through the Federal Reserve's discount window. Without sufficient liquidity from these potential sources, we may not be able to meet the cash flow requirements of our depositors and borrowers.

Additionally, our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors specific to us, the financial services industry or the economy in general. Factors that could reduce our access to liquidity sources include a downturn in our local or national economies, difficult or illiquid credit markets or adverse regulatory actions against us. A failure to maintain adequate liquidity could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to find suitable acquisition candidates.

Although our growth strategy is to primarily focus and promote organic growth, we also have in the past and intend in the future to complement and expand our business by pursuing strategic acquisitions of banks and other financial institutions. We believe, however, there are a limited number of banks that will meet our acquisition criteria and, consequently, we cannot assure you that we will be able to identify suitable candidates for acquisitions. In addition, even if suitable candidates are identified, we expect to compete with other potential bidders for such businesses, many of which may have greater financial resources than we have. Our failure to find suitable acquisition candidates, or successfully bid against other competitors for acquisitions, could adversely affect our ability to successfully implement our business strategy.

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We may be unable to manage our growth due to acquisitions, which could have an adverse effect on our financial condition or results of operations.

Acquisitions of other banks and financial institutions involve risks of changes in results of operations or cash flows, unforeseen liabilities relating to the acquired institution or arising out of the acquisition, asset quality problems of the acquired entity and other conditions not within our control, such as adverse personnel relations, loss of customers because of change of identity, deterioration in local economic conditions and other risks affecting the acquired institution. In addition, the process of integrating acquired entities will divert significant management time and resources. We may not be able to integrate successfully or operate profitably any financial institutions we may acquire. We may experience disruption and incur unexpected expenses in integrating acquisitions. There can be no assurance that any such acquisitions will enhance our cash flows, business, financial condition, results of operations or prospects and such acquisitions may have an adverse effect on our results of operations, particularly during periods in which the acquisitions are being integrated into our operations.

We face significant competition from other financial institutions and financial services providers.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources, higher lending limits and large branch networks. Such competitors primarily include national, regional and community banks within the various markets we serve. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Increased competition among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies may adversely affect our ability to market our products and services. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic funds transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may offer a broader range of products and services as well as better pricing for those products and services than we can.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on quality service, high ethical standards and safe, sound assets;
- the ability to expand our market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could harm our business, financial condition, results of operations and cash flows.

We may not be able to manage risks inherent in our business, particularly given the recent turbulent and dynamic market conditions.

A comprehensive and well-integrated risk management function is essential for our business. We have adopted various policies, procedures and systems to monitor and manage risk and are currently implementing a centralized risk oversight function. These policies, procedures and systems may be inadequate to identify and mitigate all risks inherent in our business. In addition, our business and the markets and industry in which we operate are continuously evolving. We may fail to understand fully the implications of changes in our business or the financial markets and fail to adequately or timely enhance our risk framework to address those changes, particularly given the recent turbulent and dynamic market conditions. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets or in our business or for other reasons, we could incur losses and otherwise experience harm to our business.

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Our systems of internal operating controls may not be effective.

We establish and maintain systems of internal operational controls that provide us with critical information used to manage our business. These systems are subject to various inherent limitations, including cost, judgments used in decision-making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error and the risk of fraud. Moreover, controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, any system of internal operating controls may not be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management. From time to time, control deficiencies and losses from operational malfunctions or fraud have occurred and may occur in the future. Any future deficiencies, weaknesses or losses related to internal operating control systems could have an adverse effect on our business and, in turn, on our financial condition, results of operations and prospects.

We may become liable for environmental remediation and other costs on repossessed properties, which could adversely impact our results of operations, cash flows and financial condition.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. If hazardous or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our cash flows, financial condition and results of operations.

We may be subject to claims and litigation pertaining to our fiduciary responsibilities.

Some of the services we provide, such as trust and investment services, require us to act as fiduciaries for our customers and others. From time to time, third parties make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. If these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability and/or our reputation could be damaged. Either of these results may adversely impact demand for our products and services or otherwise have a harmful effect on our business and, in turn, on our financial condition, results of operations and prospects.

We may not effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to use technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, on our financial condition, results of operations and prospects.

The Federal Reserve may require us to commit capital resources to support our bank subsidiary.

As a matter of policy, the Federal Reserve, which examines us and our subsidiaries, expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the “source of strength” doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under this requirement, we could be required to provide financial assistance to our subsidiary bank should our subsidiary bank experience financial distress.

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A capital injection may be required at times when we do not have the resources to provide it and therefore we may be required to borrow the funds or raise additional equity capital from third parties. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its indebtedness. Any financing that must be done by the holding company in order to make the required capital injection may be difficult and expensive and may not be available on attractive terms, or at all, which likely would have a material adverse effect on our cash flows, financial condition, results of operations and prospects.

We may be adversely affected by the soundness of other financial institutions.

The financial services industry as a whole, as well as the securities markets generally, have been materially and adversely affected by significant declines in the values of nearly all asset classes and a serious lack of liquidity. If other financial institutions in our markets dispose of real estate collateral at below-market prices to meet liquidity or regulatory requirements, such actions could negatively impact overall real estate values, including properties securing our loans. Our credit risk is exacerbated when the collateral we hold cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit exposure due to us. Any such losses could harm our financial condition, results of operations and prospects.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties. For example, we execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to increased credit risk in the event of default of a counterparty or client.

The short-term and long-term impact of the proposed Basel III capital standards and the forthcoming new capital rules proposed for U.S. banks is uncertain.

On December 16, 2010, the Basel Committee on Banking Supervision, or Basel Committee, released the final text of its reforms to strengthen global capital and liquidity rules designed to create a more resilient banking industry. These reforms, known as Basel III, are intended to strengthen the regulatory capital framework by, among other things, (1) raising the quality, consistency and transparency of an institution's capital base, (2) reducing procyclicality and promoting counter cyclical buffers, (3) enhancing risk coverage, (4) supplementing the risk-based capital requirement with a leverage ratio, and (5) introducing a global liquidity standard.

On January 13, 2011, the Basel Committee issued additional criteria to Basel III. This criteria provides that for instruments issued by a bank to be included in Tier 1 or Tier 2 capital, they must meet or exceed minimum requirements designed to require such instruments to fully absorb losses before taxpayers are exposed to loss.

Basel III, as supplemented, has been adopted by the Federal Reserve. On June 4, 2012, the Board of Governors of the Federal Reserve System, or the Board, issued three notices of proposed rulemaking, or NPRs, to restructure the Board's current regulatory capital rules and revise current regulatory capital requirements to make them consistent with the Basel III capital standards and certain provisions of the Dodd-Frank Act. On November 9, 2012, the Board

announced that the suggested effective date of these NPRs of January 1, 2013 had been delayed indefinitely.

Because the NPRs are subject to final rulemaking by the Board and their provisions may change before implementation, the short-term and long-term impact of the Basel III capital standards and the forthcoming new capital rules is uncertain.

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Our Bank's ability to pay dividends to us is subject to regulatory limitations, which, to the extent we are not able to receive such dividends, may impair our ability to grow, pay dividends, cover operating expenses and meet debt service requirements.

We are a legal entity separate and distinct from the Bank, our only bank subsidiary. Since we are a holding company with no significant assets other than the capital stock of our subsidiaries, we depend upon dividends from the Bank for a substantial part of our revenue. Accordingly, our ability to grow, pay dividends, cover operating expenses and meet debt service requirements depends primarily upon the receipt of dividends or other capital distributions from the Bank. The Bank's ability to pay dividends to us is subject to, among other things, its earnings, financial condition and need for funds, as well as federal and state governmental policies and regulations applicable to us and the Bank, which limit the amount that may be paid as dividends without prior approval. For example, in general, the Bank is limited to paying dividends that do not exceed the current year net profits together with retained earnings from the two preceding calendar years unless the prior consents of the Montana and federal banking regulators are obtained.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to Our Common Stock

Our dividend policy may change.

Although we have historically paid dividends to our stockholders, we have no obligation to continue doing so and may change our dividend policy at any time without notice to our stockholders. Holders of our common stock are only entitled to receive such cash dividends as our Board may declare out of funds legally available for such payments. Furthermore, consistent with our strategic plans, growth initiatives, capital availability, projected liquidity needs and other factors, we have made and adopted and will continue to make and adopt, capital management decisions and policies that could adversely impact the amount of dividends paid to our stockholders.

The trading volume in our Class A Common Stock has been limited, and an active trading market may not develop.

Our Class A common stock is currently traded on The NASDAQ Global Select Market. Our Class A common stock is thinly-traded and has substantially less liquidity than the average trading market for many other publicly-traded financial institutions and other companies. Therefore, investors have limited opportunities to sell their shares of Class A common stock in the open market. Limited trading of our Class A common stock also contributes to more volatile price fluctuations. An active trading market for our Class A common stock may never develop or be sustained, which could affect your ability to sell your shares and could depress the market price of your shares. Approximately 45% of our outstanding Class A common stock is owned by members of the Scott family, our executive officers and our

directors. The substantial amount of stock owned by these individuals may adversely affect the development of an active and liquid trading market.

Our Class A common stock share price could be volatile and could decline.

The market price of our Class A common stock is volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include:

- prevailing market conditions;
- our historical performance and capital structure;
- estimates of our business potential and earnings prospects;

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- an overall assessment of our management;
- our Class B shareholders may convert their shares into Class A common stock and liquidate their holdings; and
- the consideration of these factors in relation to market valuation of companies in related businesses.

At times the stock markets, including the NASDAQ Stock Market, on which our Class A common stock is listed, may experience significant price and volume fluctuations. As a result, the market price of our Class A common stock is likely to be similarly volatile and investors in our Class A common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Holders of the Class B common stock have voting control of our company and are able to determine virtually all matters submitted to stockholders, including potential change in control transactions.

Members of the Scott family control in excess of 80% of the voting power of our outstanding common stock. Due to their holdings of common stock, members of the Scott family are able to determine the outcome of virtually all matters submitted to stockholders for approval, including the election of directors, amendment of our articles of incorporation (except when a class vote is required by law), any merger or consolidation requiring common stockholder approval and the sale of all or substantially all of our assets. Accordingly, such holders have the ability to prevent change in control transactions as long as they maintain voting control of the company.

In addition, because these holders will have the ability to elect all of our directors they will be able to control our policies and operations, including the appointment of management, future issuances of our common stock or other securities, the payments of dividends on our common stock and entering into extraordinary transactions, and their interests may not in all cases be aligned with your interests. Further, because of our dual class structure, members of the Scott family will continue to be able to control all matters submitted to our stockholder for approval even if they come to own less than 50% of the total outstanding shares of our common stock. The Scott family members have entered into a stockholder agreement giving family members a right of first refusal to purchase shares of Class B common stock that are intended to be sold or transferred, subject to certain exceptions, by other family members. This agreement may have the effect of continuing ownership of the Class B common stock and control within the Scott family. This concentrated control will limit your ability to influence corporate matters. As a result, the market price of our Class A common stock could be adversely affected.

Future equity issuances could result in dilution, which could cause our Class A common stock price to decline.

We are not restricted from issuing additional Class A common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, Class A common stock. We may issue additional Class A common stock in the future pursuant to current or future employee stock option plans or in connection with future acquisitions or financings. Should we choose to raise capital by selling shares of Class A common stock for any reason, the issuance would have a dilutive effect on the holders of our Class A common stock and could have a material negative effect on the market price of our Class A common stock.

An investment in our Class A common stock is not an insured deposit.

Our Class A common stock is not a bank savings account or deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or any other public or private entity. As a result, holders of our common stock could lose some or all of their investment.

“Anti-takeover” provisions and the regulations to which we are subject also may make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders.

We are a financial and bank holding company incorporated in the State of Montana. Anti-takeover provisions in Montana law and our articles of incorporation and bylaws, as well as regulatory approvals that would be required under federal law, could make it more difficult for a third party to acquire control of us and may prevent stockholders from receiving a premium for their shares of our Class A common stock. These provisions could adversely affect the market price of our Class A common stock and could reduce the amount that stockholders might receive if we are sold.

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Our articles of incorporation provide that our board of directors, or Board, may issue up to 100,000 shares of preferred stock, in one or more series, without stockholder approval and with such terms, conditions, rights, privileges and preferences as the Board may deem appropriate. In addition, our articles of incorporation provide for staggered terms for our Board and limitations on persons authorized to call a special meeting of stockholders. In addition, certain provisions of Montana law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of our Class A common stock with the opportunity to realize a premium over the then-prevailing market price of such Class A common stock.

Further, the acquisition of specified amounts of our common stock (in some cases, the acquisition or control of more than 5% of our voting stock) may require certain regulatory approvals, including the approval of the Federal Reserve and one or more of our state banking regulatory agencies. The filing of applications with these agencies and the accompanying review process can take several months. Additionally, as discussed above, the holders of the Class B common stock will have voting control of our company. This and the other factors described above may hinder or even prevent a change in control of us, even if a change in control would be beneficial to our stockholders.

We qualify as a “controlled company” under the NASDAQ Marketplace Rules and may rely on exemptions from certain corporate governance requirements.

As a result of the combined voting power of the members of the Scott family described above, we qualify as a “controlled company” under the NASDAQ Marketplace Rules. As a controlled company, we may rely on exemptions from certain NASDAQ corporate governance standards that are available to controlled companies, including the requirements that:

- a majority of the board of directors consist of independent directors;
- the compensation of officers be determined, or recommended to the board of directors for determination, by a majority of the independent directors or a compensation committee comprised solely of independent directors; and
- director nominees be selected, or recommended for the board of directors' selection, by a majority of the independent directors or a nominating committee comprised solely of independent directors with a written charter or board resolution addressing the nomination process.

As a result, in the future, our compensation and governance & nominating committees may not consist entirely of independent directors. As long as we choose to rely on these exemptions from NASDAQ Marketplace Rules in the future, you will not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements.

The Class A common stock is equity and is subordinate to our existing and future indebtedness

Shares of our Class A common stock are equity interests and do not constitute indebtedness. As such, shares of our Class A common stock rank junior to all our indebtedness, including our subordinated term loans, the subordinated debentures held by trusts that have issued trust preferred securities and other non-equity claims on us with respect to assets available to satisfy claims on us. Additionally, holders of our Class A common stock are subject to the prior dividend and liquidation rights of any holders of Series A preferred stock then outstanding.

In the future, we may attempt to increase our capital resources or, if our Bank's capital ratios fall below the required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of debt or equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Or, we may issue additional debt or equity securities as consideration for future mergers and acquisitions. Such additional debt and equity offerings may place restrictions on our ability to pay dividends on or repurchase our

common stock, dilute the holdings of our existing stockholders or reduce the market price of our Class A common stock. Furthermore, acquisitions typically involve the payment of a premium over book and market values and therefore, some dilution of our tangible book value and net income per common stock may occur in connection with any future transaction. Holders of our Class A common stock are not entitled to preemptive rights or other protections against dilution.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our principal executive offices and one of our banking offices are anchor tenants in an eighteen story commercial building located in Billings, Montana. The building is owned by a joint venture partnership in which the Bank is one of two partners, owning a 50% interest in the partnership. We lease approximately 97,313 square feet of office space in the building. We also own a 65,226 square foot building that houses our operations center in Billings, Montana. We provide banking services at 75 additional locations in Montana, Wyoming and western South Dakota, of which 17 properties are leased from independent third parties and 58 properties are owned by us. We believe each of our facilities is suitable and adequate to meet our current operational needs.

Item 3. Legal Proceedings

In the normal course of business, we are named or threatened to be named as a defendant in various lawsuits. Management, following consultation with legal counsel, does not expect the ultimate disposition of one or a combination of these matters to have a material adverse effect on our business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Description of Our Capital Stock

Our articles provide for two classes of common stock: Class A common stock, which has one vote per share, and Class B common stock, which has five votes per share. Class B common stock is convertible into Class A common stock as described below. Our common stock is uncertificated.

Our authorized capital stock consists of 200,100,000 shares, each with no par value per share, of which:

• 100,000,000 shares are designated as Class A common stock;

• 100,000,000 shares are designated as Class B common stock; and

• 100,000 shares are designated as preferred stock.

At December 31, 2012, we had issued and outstanding 17,635,369 shares of Class A common stock, 25,654,954 shares of Class B common stock and 5,000 shares of preferred stock that have been designated as Series A preferred stock. At December 31, 2012, we also had outstanding stock options to purchase an aggregate of 707,622 shares of our Class A common stock and 2,666,033 shares of our Class B common stock.

Members of the Scott family control in excess of 80% of the voting power of our outstanding common stock. The Scott family members have entered into a stockholder agreement giving family members a right of first refusal to purchase shares of Class B common stock that are intended to be sold or transferred, subject to certain exceptions, by other family members. This agreement may have the effect of continuing ownership of the Class B common stock and control of our Company within the Scott family.

Due to the ownership and control of our Company by members of the Scott family, we are a “controlled company” as that term is used under the NASDAQ Marketplace Rules. As a “controlled company,” we may rely on exemptions from certain NASDAQ corporate governance requirements, including those regarding independent director requirements for the Board and committees of the Board.

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Preferred Stock

Our Board is authorized, without approval of the holders of Class A common stock or Class B common stock, to provide for the issuance of preferred stock from time to time in one or more series in such number and with such designations, preferences, powers and other special rights as may be stated in the resolution or resolutions providing for such preferred stock. Our Board may cause us to issue preferred stock with voting, conversion and other rights that could adversely affect the holders of Class A common stock or Class B common stock or make it more difficult to effect a change in control.

As of December 31, 2012, we had outstanding 5,000 shares of 6.75% Series A noncumulative redeemable preferred stock, which ranked senior to our Class A common stock and Class B common stock with respect to dividend and liquidation rights. Holders of the Series A preferred stock were entitled to receive, when and if declared by the Board, noncumulative cash dividends at an annual rate of \$675 per share (based on a 360 day year). In the event full dividends were not paid for three consecutive quarters, the Series A preferred stock holders were entitled to elect two members to our Board. The Series A preferred stock was redeemed by the Company on January 18, 2013, at a price of \$10,000 per share plus accrued but unpaid dividends at the redemption date. For additional information regarding the redemption of the Series A preferred stock, see "Notes to Consolidated Financial Statements — Capital Stock and Dividend Restrictions" included in Part IV, Item 15.

Common Stock

The holders of our Class A common stock are entitled to one vote per share and the holders of our Class B common stock are entitled to five votes per share on any matter to be voted upon by the stockholders. Holders of Class A common stock and Class B common stock vote together as a single class on all matters (including the election of directors) submitted to a vote of stockholders, unless otherwise required by law.

The holders of common stock are not entitled to cumulative voting rights with respect to the election of directors, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election. Directors are elected by a majority of the voting power present in person or represented by proxy at a shareholder meeting rather than by a plurality vote.

The holders of our Class A common stock and Class B common stock are entitled to share equally in any dividends that our Board may declare from time to time from legally available funds and assets, subject to limitations under Montana law and the preferential rights of holders of any outstanding shares of preferred stock. If a dividend is paid in the form of shares of common stock or rights to acquire shares of common stock, the holders of Class A common stock will be entitled to receive Class A common stock, or rights to acquire Class A common stock, as the case may be and the holders of Class B common stock will be entitled to receive Class B common stock, or rights to acquire Class B common stock, as the case may be

Upon any voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of our company, the holders of our Class A common stock and Class B common stock are entitled to share equally, on a per share basis, in all our assets available for distribution, after payment to creditors and subject to any prior distribution rights granted to holders of any outstanding shares of preferred stock.

Our Class A common stock is not convertible into any other shares of our capital stock. Any holder of Class B common stock may at any time convert his or her shares into shares of Class A common stock on a share-for-share basis. The shares of Class B common stock will automatically convert into shares of Class A common stock on a share-for-share basis:

- when the aggregate number of shares of our Class B common stock is less than 20% of the aggregate number of shares of our Class A common stock and Class B common stock then outstanding; or

upon any transfer, whether or not for value, except for transfers to the holder's spouse, certain of the holder's relatives, the trustees of certain trusts established for their benefit, corporations and partnerships wholly-owned by the holders and their relatives, the holder's estate and other holders of Class B common stock.

Once converted into Class A common stock, the Class B common stock cannot be reissued. No class of common stock may be subdivided or combined unless the other class of common stock concurrently is subdivided or combined in the same proportion and in the same manner.

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Other than in connection with dividends and distributions, subdivisions or combinations, or certain other circumstances, we are not authorized to issue additional shares of Class B common stock.

Class A and Class B common stock do not have any preemptive rights.

The Class B common stock is not and will not be listed on the NASDAQ Stock Market or any other exchange. Therefore, no trading market is expected to develop in the Class B common stock. Class A common stock is listed on the NASDAQ Stock Market under the symbol "FIBK."

The table below sets forth, for each quarter in the past two years, the quarterly high and low closing sales prices per share of the Class A common stock, as reported by the NASDAQ Stock Market.

Quarter Ended	High	Low
March 31, 2011	\$15.90	\$12.99
June 30, 2011	14.74	13.16
September 30, 2011	14.83	10.08
December 31, 2011	13.41	9.88
March 31, 2012	15.00	13.12
June 30, 2012	14.94	13.32
September 30, 2012	15.49	13.54
December 31, 2012	15.64	13.52

As of December 31, 2012, we had 670 record shareholders, including the Wealth Management division of First Interstate Bank as trustee for 1,503,448 shares of Class A common stock held on behalf of 987 individual participants in the Savings and Profit Sharing Plan for Employees of First Interstate BancSystem, Inc., or the Savings Plan. The Savings Plan Trustee votes the shares based on the instructions of each participant. In the event the participant does not provide the Savings Plan Trustee with instructions, the Savings Plan Trustee votes those shares in accordance with voting instructions received from a majority of the participants in the plan.

Dividends

It is our policy to pay a dividend to all common shareholders quarterly. We currently intend to continue paying quarterly dividends; however, the Board may change or eliminate the payment of future dividends.

Recent quarterly dividends follow:

Dividend Payment	Amount Per Share	Total Cash Dividends
First quarter 2011	\$0.1125	\$4,797,595
Second quarter 2011	0.1125	4,809,901
Third quarter 2011	0.1125	4,811,704
Fourth quarter 2011	0.1125	4,813,801
First quarter 2012	0.1200	5,136,079
Second quarter 2012	0.1200	5,154,213
Third quarter 2012	0.1200	5,158,975
Fourth quarter 2012	0.1200	5,162,138
Fourth quarter 2012 - Accelerated	0.1300	5,597,747

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Dividend Restrictions

For a description of restrictions on the payment of dividends, see Part I, Item 1, “Business — Regulation and Supervision — Restrictions on Transfers of Funds to Us and the Bank,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources and Liquidity Management” included in Part II, Item 7 herein.

Sales of Unregistered Securities

There were no issuances of unregistered securities during the three months ended December 31, 2012.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no purchases made by or on behalf of us or any “affiliated purchasers” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the three months ended December 31, 2012.

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Performance Graph

The performance graph below compares the cumulative total shareholder return on our Class A common stock since our Class A common stock began trading on the Nasdaq Global Select Market on March 23, 2010, as compared with the cumulative total return on equity securities of companies included in the Nasdaq Composite Index and the Nasdaq Bank Index over the same period. The Nasdaq Bank Index is a comparative peer index comprised of financial companies, including banks, savings institutions and related holding companies that perform banking-related functions, listed on the Nasdaq Stock Market. The Nasdaq Composite Index is a comparative broad market index comprised of all domestic and international common stocks listed on the Nasdaq Stock Market. This graph assumes a \$100 investment in our common stock on the first day of trading, and reinvestment of dividends on the date of payment without commissions. The plot points on the graph were provided by SNL Financial LC, Charlottesville, VA. The performance graph represents past performance, which may not be indicative of the future performance of our common stock.

Index	Period Ending					
	3/23/10	6/30/10	12/31/10	12/31/11	6/30/12	12/31/12
First Interstate BancSystem, Inc.	\$ 100.00	110.02	108.27	95.89	106.56	117.38
NASDAQ Composite	100.00	87.56	110.78	109.92	124.56	129.43
NASDAQ Bank	100.00	89.04	98.86	88.48	98.67	105.02

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Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data with respect to our consolidated financial position as of December 31, 2012 and 2011, and the results of our operations for the fiscal years ended December 31, 2012, 2011 and 2010, has been derived from our audited consolidated financial statements included in Part IV, Item 15. This data should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and such consolidated financial statements, including the notes thereto. The selected consolidated financial data with respect to our consolidated financial position as of December 31, 2010, 2009 and 2008, and the results of our operations for the fiscal years ended December 31, 2009 and 2008, has been derived from our audited consolidated financial statements not included herein.

Five Year Summary

(Dollars in thousands except share and per share data)

As of or for the year ended December 31,	2012	2011	2010	2009	2008
Selected Balance Sheet Data:					
Net loans	\$4,123,401	\$4,073,968	\$4,247,429	\$4,424,974	\$4,685,497
Investment securities	2,203,481	2,169,645	1,933,403	1,446,280	1,072,276
Total assets	7,721,761	7,325,527	7,500,970	7,137,653	6,628,347
Deposits	6,240,411	5,826,971	5,925,713	5,824,056	5,174,259
Securities sold under repurchase agreements	505,785	516,243	620,154	474,141	525,501
Long-term debt	37,160	37,200	37,502	73,353	84,148
Preferred stock pending redemption (1)	50,000	—	—	—	—
Subordinated debentures held by subsidiary trusts	82,477	123,715	123,715	123,715	123,715
Preferred stockholders' equity (1)	—	50,000	50,000	50,000	50,000
Common stockholders' equity	751,186	721,020	686,802	524,434	489,062
Selected Income Statement Data:					
Interest income	\$273,900	\$292,883	\$314,546	\$328,034	\$355,919
Interest expense	30,114	42,031	63,107	84,898	120,542
Net interest income	243,786	250,852	251,439	243,136	235,377
Provision for loan losses	40,750	58,151	66,900	45,300	33,356
Net interest income after provision for loan losses	203,036	192,701	184,539	197,836	202,021
Non-interest income	114,861	91,872	90,911	100,690	128,597
Non-interest expense	229,635	218,412	221,004	217,710	222,541
Income before income taxes	88,262	66,161	54,446	80,816	108,077
Income tax expense	30,038	21,615	17,090	26,953	37,429
Net income	58,224	44,546	37,356	53,863	70,648
Preferred stock dividends	3,300	3,422	3,422	3,422	3,347
Net income available to common shareholders	\$54,924	\$41,124	\$33,934	\$50,441	\$67,301
Common Share Data:					
Earnings per share:					
Basic	\$1.28	\$0.96	\$0.85	\$1.61	\$2.14
Diluted	1.27	0.96	0.85	1.59	2.10
Dividends per share	0.61	0.45	0.45	0.50	0.65
Book value per share (2)	17.35	16.77	16.05	16.73	15.50
Tangible book value per share (3)	12.97	12.33	11.55	10.53	9.27
Weighted average shares outstanding:					
Basic	42,965,987	42,749,526	39,907,640	31,335,668	31,484,136
Diluted	43,092,978	42,847,196	40,127,365	31,678,500	32,112,672

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Five Year Summary (continued)

(Dollars in thousands except share and per share data)

As of or for the year ended December 31,	2012	2011	2010	2009	2008	
Financial Ratios:						
Return on average assets	0.79	%0.61	%0.52	%0.79	%1.12	%
Return on average common stockholders' equity	7.46	5.86	5.22	9.98	14.73	
Average stockholders' equity to average assets	10.57	10.25	9.67	8.16	7.98	
Yield on average earning assets	4.10	4.43	4.85	5.44	6.37	
Cost of average interest bearing liabilities	0.58	0.78	1.15	1.63	2.50	
Interest rate spread	3.52	3.65	3.70	3.81	3.87	
Net interest margin (4)	3.66	3.80	3.89	4.05	4.25	
Efficiency ratio (5)	64.03	63.73	64.55	63.32	61.14	
Common stock dividend payout ratio (6)	47.66	46.88	52.94	31.06	30.37	
Loan to deposit ratio	67.69	71.85	73.71	77.75	92.24	
Asset Quality Ratios						
Non-performing loans to total loans (7)	3.36	%5.77	%4.82	%2.75	%1.90	%
Non-performing assets to total loans and other real estate owned (OREO) (8)	4.10	6.60	5.55	3.57	2.03	
Non-performing assets to total assets	2.26	3.81	3.26	2.28	1.46	
Allowance for loan losses to total loans	2.38	2.69	2.76	2.28	1.83	
Allowance for loan losses to non-performing loans	70.78	46.62	57.19	82.64	96.03	
Net charge-offs to average loans	1.26	1.54	1.10	0.63	0.28	
Capital Ratios:						
Tangible common stockholders equity to tangible assets (9)	7.46	%7.43	%6.76	%4.76	%4.55	%
Net tangible common stockholders equity to tangible assets (10)	8.26	8.28	7.59	5.63	5.49	
Tier 1 common capital to total risk weighted assets (11)	11.94	11.04	10.12	6.43	5.35	
Leverage ratio	8.81	9.84	9.27	7.30	7.13	
Tier 1 risk-based capital	13.60	14.55	13.53	9.74	8.57	
Total risk-based capital	15.59	16.54	15.50	11.68	10.49	

On December 18, 2012, we provided notice to preferred stockholders of our intention to redeem the preferred stock (1) on January 18, 2013. Upon notice to holders of the redemption, all preferred stock outstanding was reclassified from stockholder's equity to a liability.

(2) For purposes of computing book value per share, book value equals common stockholders' equity.

Tangible book value per share is a non-GAAP financial measure that management uses to evaluate our capital adequacy. For purposes of computing tangible book value per share, tangible book value equals common stockholders' equity less goodwill, core deposit intangibles and other intangible assets (except mortgage servicing (3) rights). Tangible book value per share is calculated as tangible common stockholders' equity divided by common shares outstanding, and its most directly comparable GAAP financial measure is book value per share. See below our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "—Non-GAAP Financial Measures" in this Part II, Item 6.

(4) Net interest margin ratio is presented on a fully taxable equivalent, or FTE, basis.

(5) Efficiency ratio represents non-interest expense, excluding loan loss provision, divided by the aggregate of net interest income and non-interest income.

- (6) Common stock dividend payout ratio represents dividends per common share divided by basic earnings per common share.
- (7) Non-performing loans include non-accrual loans, loans past due 90 days or more and still accruing interest and troubled debt restructurings.
- (8) Non-performing assets include non-accrual loans, loans past due 90 days or more and still accruing interest, troubled debt restructurings and OREO.
- Tangible common equity to tangible assets is a non-GAAP financial measure that management uses to evaluate our capital adequacy. For purposes of computing tangible common equity to tangible assets, tangible common equity is calculated as common stockholders' equity less goodwill and other intangible assets (except mortgage servicing assets), and tangible assets is calculated as total assets less goodwill and other intangible assets (except mortgage servicing rights). See below our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption “—Non-GAAP Financial Measures” in this Part II, Item 6.
- (9) Net tangible common equity to tangible assets is a non-GAAP financial measure that management uses to evaluate our capital adequacy. For purposes of computing net tangible common equity to tangible assets, net tangible common equity is calculated as common stockholders' equity less goodwill (adjusted for associated
- (10) deferred tax liability) and other intangible assets (except mortgage servicing assets), and tangible assets is calculated as total assets less goodwill and other intangible assets (except mortgage servicing rights). See below our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption “—Non-GAAP Financial Measures” in this Part II, Item 6.
- (11) For purposes of computing tier 1 common capital to total risk-weighted assets, tier 1 common capital excludes preferred stock and trust preferred securities.

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Non-GAAP Financial Measures

In addition to results presented in accordance with generally accepted accounting principals in the United States of America, or GAAP, this annual report contains the following non-GAAP financial measures that management uses to evaluate our capital adequacy: tangible book value per share, tangible common equity to tangible assets and net tangible common equity to tangible assets. Tangible book value per share is calculated as tangible common stockholders' equity divided by common shares outstanding. Tangible assets is calculated as total assets less goodwill and other intangible assets (excluding mortgage servicing assets). Tangible common equity to tangible assets is calculated as tangible common stockholders' equity divided by tangible assets. Net tangible common equity to tangible assets is calculated as net tangible common stockholders' equity divided by tangible assets. These non-GAAP financial measures may not be comparable to similarly titled measures reported by other companies because other companies may not calculate these non-GAAP measures in the same manner. They also should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP.

The following table shows a reconciliation from ending stockholders' equity (GAAP) to ending tangible common stockholders' equity (non-GAAP) and ending net tangible common stockholders' equity (non-GAAP) and ending assets (GAAP) to ending tangible assets (non-GAAP), their most directly comparable GAAP financial measures, in each instance as of the periods presented.

Non-GAAP Financial Measures - Five Year Summary

(Dollars in thousands except share and per share data)

As of December 31,	2012	2011	2010	2009	2008	
Preferred stockholders' equity	\$—	\$50,000	\$50,000	\$50,000	\$50,000	
Common stockholders' equity	751,186	721,020	686,802	524,434	489,062	
Total stockholders' equity	751,186	771,020	736,802	574,434	539,062	
Less goodwill and other intangible assets	189,637	191,065	192,518	194,273	196,667	
Less preferred stock	—	50,000	50,000	50,000	50,000	
Tangible common stockholders' equity	561,549	529,955	494,284	330,161	292,395	
Add deferred tax liability for deductible goodwill	60,499	60,499	60,499	60,499	60,499	
Net tangible common stockholders' equity	\$622,048	\$590,454	\$554,783	\$390,660	\$352,894	
Total assets	\$7,721,761	\$7,325,527	\$7,500,970	\$7,137,653	\$6,628,347	
Less goodwill and other intangible assets (excluding mortgage servicing rights)	189,637	191,065	192,518	194,273	196,667	
Tangible assets	\$7,532,124	\$7,134,462	\$7,308,452	\$6,943,380	\$6,431,680	
Number of common shares outstanding	43,290,323	42,981,174	42,800,694	31,349,588	31,550,076	
Book value per common share	\$17.35	\$16.77	\$16.05	\$16.73	\$15.50	
Tangible book value per common share	12.97	12.33	11.55	10.53	9.27	
Net tangible book value per common share	14.37	13.74	12.96	12.46	11.19	
Tangible common stockholders' equity to tangible assets	7.46	%7.43	%6.76	%4.76	%4.55	%
Net tangible common stockholders' equity to tangible assets	8.26	%8.28	%7.59	%5.63	%5.49	%

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

Cautionary Note Regarding Forward-Looking Statements and Factors that Could Affect Future Results

This report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder, that involve inherent risks and uncertainties. Any statements about our plans, objectives, expectations, strategies, beliefs, or future performance or events constitute forward-looking statements. Such statements are identified as those that include words or phrases such as “believes,” “expects,” “anticipates,” “plans,” “trend,” “objective,” “continue” or similar expressions or future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “may” or similar expressions. Forward-looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other important factors that could cause actual results to differ materially from any results, performance or events expressed or implied by such forward-looking statements. The following factors, among others, may cause actual results to differ materially from current expectations in the forward-looking statements, including those set forth in this report:

- continuing or worsening economic conditions;
- adverse economic conditions affecting Montana, Wyoming and western South Dakota;
- credit losses;
- concentrations of real estate loans;
- commercial loan risk;
- adequacy of the allowance for loan losses;
- impairment of goodwill;
- changes in interest rates;
- access to low-cost funding sources;
- increases in deposit insurance premiums;
- repurchases of mortgage loans from or reimbursements to investors due to contractual or warranty breach;
- inability to grow business;
- governmental regulation and changes in regulatory, tax and accounting rules and interpretations;
- sweeping changes in regulation of financial institutions due to passage of the Dodd-Frank Act;
- changes in or noncompliance with governmental regulations;
- effects of recent legislative and regulatory efforts to stabilize financial markets;
- dependence on the Company’s management team;
- ability to attract and retain qualified employees;
- failure of technology;
- reliance on external vendors;
- inability to meet liquidity requirements;
- lack of acquisition candidates;
- failure to manage growth;
- competition;
- inability to manage risks in turbulent and dynamic market conditions;
- ineffective internal operational controls;
- environmental remediation and other costs;
- litigation pertaining to fiduciary responsibilities;
- failure to effectively implement technology-driven products and services;
- capital required to support the Company’s bank subsidiary;
- soundness of other financial institutions;
- impact of proposed Basel III capital standards for U.S. banks;
- inability of our bank subsidiary to pay dividends;

implementation of new lines of business or new product or service offerings;

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change in dividend policy;
lack of public market for our Class A common stock;
volatility of Class A common stock;
voting control of Class B stockholders;
decline in market price of Class A common stock;
dilution as a result of future equity issuances;
uninsured nature of any investment in Class A common stock;
anti-takeover provisions;
controlled company status; and,
subordination of common stock to Company debt.

These factors are not necessarily all of the factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made and we do not undertake or assume any obligation to update publicly any of these statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Executive Overview

We are a financial and bank holding company headquartered in Billings, Montana. As of December 31, 2012, we had consolidated assets of \$7.7 billion, deposits of \$6.2 billion, loans of \$4.2 billion and total stockholders' equity of \$751 million. We currently operate 76 banking offices, including detached drive-up facilities, in 42 communities located in Montana, Wyoming and western South Dakota. Through the Bank, we deliver a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities throughout our market areas. We also offer internet and mobile banking services. Our customers participate in a wide variety of industries, including energy, tourism, agriculture, healthcare, professional services, education, governmental services, construction, mining, retail and wholesale trade.

Our Business

Our principal business activity is lending to, accepting deposits from and conducting financial transaction for individuals, businesses, municipalities and other entities. We derive our income principally from interest charged on loans and, to a lesser extent, from interest and dividends earned on investments. We also derive income from non-interest sources such as fees received in connection with various lending and deposit services; trust, employee benefit, investment and insurance services; mortgage loan originations, sales and servicing; merchant and electronic banking services; and from time to time, gains on sales of assets. Our principal expenses include interest expense on deposits and borrowings, operating expenses, provisions for loan losses and income tax expense.

Our loan portfolio consists of a mix of real estate, consumer, commercial, agricultural and other loans, including fixed and variable rate loans. Our real estate loans comprise commercial real estate, construction (including residential, commercial and land development loans), residential, agricultural and other real estate loans. Fluctuations in the loan portfolio are directly related to the economies of the communities we serve. While each loan originated generally must meet minimum underwriting standards established in our credit policies, lending officers are granted discretion within

pre-approved limits in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area. We fund our loan portfolio primarily with the core deposits from our customers, generally without utilizing brokered deposits and with minimal reliance on wholesale funding sources. For additional information about our underwriting standards and loan approval process, see "Business—Lending Activities," included in Part I, Item 1 of this report.

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Recent Trends and Developments

Asset Quality

Non-performing assets decreased to \$175 million, or 2.26% of total assets, as of December 31, 2012, from \$279 million, or 3.81% of total assets as of December 31, 2011, primarily due to the movement of lower quality loans out of the portfolio through charge-off or foreclosure and sales of OREO properties. Loan charge-offs, net of recoveries, totaled \$53 million during 2012, as compared to \$66 million during 2011. Net charge-offs peaked during the second quarter 2012 at \$25 million for the three-month period. Net charge-offs are expected to decline, yet remain elevated in future quarters as problem loans continue to work through the credit cycle.

Our criticized loans decreased during 2012, ending the year at \$468 million, a \$163 million, or 25.8%, decrease from \$631 million as of December 31, 2011. Based on our assessment of the adequacy of our allowance for loan losses, we recorded provision for loan losses of \$40.8 million during 2012, compared to \$58.2 million during 2011. Management expects provision for loan losses to continue to decline as credit quality improves.

Net Interest Margin

Our net interest margin ratio, on a fully taxable-equivalent, or FTE, basis, decreased 14 basis points to 3.66% in 2012, as compared to 3.80% in 2011. The decrease was attributable to lower outstanding loan balances and lower yields earned on our loan and investment portfolios, which were partially offset by reductions in the cost of interest bearing liabilities combined with a continued shift away from higher-costing savings and time deposits to lower-costing demand deposits. Management expects further compression in the net FTE interest margin ratio in future quarters resulting from the continuing low interest rate environment.

Origination and Sale of Residential Mortgages

With market interest rates dipping to record lows, we recorded income from the origination and sale of residential mortgages of \$41.8 million in 2012, a \$20.6 million, or 97.6%, increase from \$21.2 million recorded in 2011. Refinancing activity accounted for 65% of our residential mortgage loan origination production in 2012, as compared to 56% in 2011. Management does not expect the current level of refinancing activity to continue in future quarters.

In January 2013, the Consumer Financial Protection Bureau, or CFPB, issued a series of final rules amending the mortgage servicing provisions of the Truth in Lending Act and the Real Estate Settlement Procedures Act. These rules, which become effective on January 10, 2014, are designed to protect borrowers from risky lending practices and includes, among other things, minimum requirements for creditors in making ability-to-repay determinations, special provisions to encourage creditors to refinance non-standard mortgages into standard mortgages with fixed rates, general underwriting criteria for qualifying mortgage loans and expansion of required disclosures and notices to the borrower. Management does not expect implementation of these new rules will have a material impact on our operations.

Proposed Regulatory Capital Rules

On June 4, 2012, the Board of Governors of the Federal Reserve System, or the Board, issued three notices of proposed rulemaking, or NPRs. Taken together, the NPRs would restructure the Board's current regulatory capital rules and revise current regulatory capital requirements to make them consistent with the Basel III capital standards established by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The first NPR is primarily focused on quantity and quality of banking

organizations' capital. The second NPR increases the risk-sensitivity of the Board's general risk-based capital requirements for determining risk-weighted assets by expanding the number of risk-weight categories and increasing the capital required for certain high-risk residential mortgages, higher-risk construction and commercial real estate lending, and certain securitization exposures. These two NPRs apply to banks, saving associations and bank holding companies with consolidated assets of \$500 million or more, like us, and to savings and loan holding companies. On November 19, 2012, the Board postponed the January 1, 2013 effective date of these NPRs indefinitely. Management believes, as of December 31, 2012, we would meet all capital adequacy requirements as currently proposed on a fully phased-in basis if such requirements were currently effective.

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The third NPR enhances the risk-sensitivity of the advanced approaches risk-based capital rule, including, among other revisions, revisions to better address counterparty credit risk and interconnectedness among financial institutions and incorporation of the Board's market risk rule into the integrated capital framework that would be established by all three proposed rules. This NPR would generally apply only to large, internationally active banking organizations or banking organizations with significant trading activity and would not impact us as currently proposed.

Proposed Settlement of Visa Interchange Litigation

On July 13, 2012, Visa, MasterCard and U.S. financial institution defendants signed a memorandum of understanding to enter into a settlement agreement to resolve a class-action lawsuit alleging collusion between the defendant banks and the credit card companies to maintain higher credit card interchange fees. Under the terms of the proposed settlement, class merchants may receive a distribution equal to 10 basis points of default interchange for a period of eight months, which would effectively reduce interchange fees received by credit card issuers, like us, during that time. Based on current transaction volumes, a 10 basis point reduction in credit interchange fees would not have a material impact on our consolidated financial statements, results of operations or liquidity. The proposed settlement agreement was submitted for preliminary federal court approval on October 19, 2012. Assuming the proposed settlement agreement is approved, the eight-month reduction in interchange fees could begin in late 2013.

Primary Factors Used in Evaluating Our Business

As a banking institution, we manage and evaluate various aspects of both our financial condition and our results of operations. We monitor our financial condition and performance on a monthly basis, at our holding company, at the Bank and at each banking office. We evaluate the levels and trends of the line items included in our balance sheet and statements of income, as well as various financial ratios that are commonly used in our industry. We analyze these ratios and financial trends against both our own historical levels and the financial condition and performance of comparable banking institutions in our region and nationally.

Results of Operations

Principal factors used in managing and evaluating our results of operations include return on average assets, net interest income, non-interest income, non-interest expense and net income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the volume and composition of interest earning assets and interest bearing liabilities. The most significant impact on our net interest income between periods is derived from the interaction of changes in the rates earned or paid on interest earning assets and interest bearing liabilities, which we refer to as interest rate spread. The volume of loans, investment securities and other interest earning assets, compared to the volume of interest bearing deposits and indebtedness, combined with the interest rate spread, produces changes in our net interest income between periods. Non-interest bearing sources of funds, such as demand deposits and stockholders' equity, also support earning assets. The impact of free funding sources is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. We evaluate our net interest income on factors that include the yields on our loans and other earning assets, the costs of our deposits and other funding sources, the levels of our net interest spread and net interest margin and the provisions for loan losses required to maintain our allowance for loan losses at an adequate level.

We seek to increase our non-interest income over time and we evaluate our non-interest income relative to the trends of the individual types of non-interest income in view of prevailing market conditions.

We manage our non-interest expenses in consideration of growth opportunities and our community banking model that emphasizes customer service and responsiveness. We evaluate our non-interest expense on factors that include

our non-interest expense relative to our average assets, our efficiency ratio and the trends of the individual categories of non-interest expense.

Finally, we seek to increase our net income and provide favorable shareholder returns over time, and we evaluate our net income relative to the performance of other bank holding companies on factors that include return on average assets, return on average equity, total shareholder return and growth in earnings.

Financial Condition

Principal areas of focus in managing and evaluating our financial condition include liquidity, the diversification and quality of our loans, the adequacy of our allowance for loan losses, the diversification and terms of our deposits and other funding sources, the re-pricing characteristics and maturities of our assets and liabilities, including potential interest rate exposure and

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the adequacy of our capital levels. We seek to maintain sufficient levels of cash and investment securities to meet potential payment and funding obligations, and we evaluate our liquidity on factors that include the levels of cash and highly liquid assets relative to our liabilities, the quality and maturities of our investment securities, the ratio of loans to deposits and any reliance on brokered certificates of deposit or other wholesale funding sources.

We seek to maintain a diverse and high quality loan portfolio and evaluate our asset quality on factors that include the allocation of our loans among loan types, credit exposure to any single borrower or industry type, non-performing assets as a percentage of total loans and OREO, and loan charge-offs as a percentage of average loans. We seek to maintain our allowance for loan losses at a level adequate to absorb probable losses inherent in our loan portfolio at each balance sheet date, and we evaluate the level of our allowance for loan losses relative to our overall loan portfolio and the level of non-performing loans and potential charge-offs.

We seek to fund our assets primarily using core customer deposits spread among various deposit categories, and we evaluate our deposit and funding mix on factors that include the allocation of our deposits among deposit types, the level of our non-interest bearing deposits, the ratio of our core deposits (i.e. excluding time deposits above \$100,000) to our total deposits and our reliance on brokered deposits or other wholesale funding sources, such as borrowings from other banks or agencies. We seek to manage the mix, maturities and re-pricing characteristics of our assets and liabilities to maintain relative stability of our net interest rate margin in a changing interest rate environment, and we evaluate our asset-liability management using models to evaluate the changes to our net interest income under different interest rate scenarios.

Finally, we seek to maintain adequate capital levels to absorb unforeseen operating losses and to help support the growth of our balance sheet. We evaluate our capital adequacy using the regulatory and financial capital ratios including leverage capital ratio, tier 1 risk-based capital ratio, total risk-based capital ratio, tangible common equity to tangible assets and tier 1 common capital to total risk-weighted assets.

Critical Accounting Estimates and Significant Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which we operate. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Our significant accounting policies are summarized in “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies” included in financial statements included Part IV, Item 15 of this report.

Our critical accounting estimates are summarized below. Management considers an accounting estimate to be critical if: (1) the accounting estimate requires management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and (2) changes in the estimate that are reasonably likely to occur from period to period, or the use of different estimates that management could have reasonably used in the current period, would have a material impact on our consolidated financial statements, results of operations or liquidity.

Allowance for Loan Losses

The provision for loan losses creates an allowance for loan losses known and inherent in the loan portfolio at each balance sheet date. The allowance for loan losses represents management’s estimate of probable credit losses inherent in the loan portfolio.

We perform a quarterly assessment of the risks inherent in our loan portfolio, as well as a detailed review of each significant loan with identified weaknesses. Based on this analysis, we record a provision for loan losses in order to maintain the allowance for loan losses at appropriate levels. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of subjective measurements, including management's assessment of the internal risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends 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 possible and may have a material impact on our allowance, and therefore our consolidated financial statements or results of operations. The allowance for loan losses is maintained at an amount we believe is sufficient to provide for estimated losses inherent in our loan portfolio at each balance sheet date, and fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses. Management monitors qualitative

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and quantitative trends in the loan portfolio, including changes in the levels of past due, internally classified and non-performing loans. See “Notes to Consolidated Financial Statements — Summary of Significant Accounting Policies” for a description of the methodology used to determine the allowance for loan losses. A discussion of the factors driving changes in the amount of the allowance for loan losses is included herein under the heading “—Financial Condition—Allowance for Loan Losses.” See also Part I, Item 1A, “Risk Factors—Risks Relating to the Market and Our Business.”

Goodwill

The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely impairment has occurred. In any given year, the Company may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is in excess of its carrying value. If it is not more likely than not that the fair value of the reporting unit is in excess of the carrying value, or if the Company elects to bypass the qualitative assessment, a two-step quantitative impairment test is performed. In performing a quantitative test for impairment, the fair value of net assets is estimated based on an analysis of our market value, discounted cash flows and peer values. Determining the fair value of goodwill is considered a critical accounting estimate because of its sensitivity to market-based economics. In addition, any allocation of the fair value of goodwill to assets and liabilities requires significant management judgment and the use of subjective measurements. Variability in market conditions and key assumptions or subjective measurements used to estimate and allocate fair value are reasonably possible and could have a material impact on our consolidated financial statements or results of operations.

Our annual goodwill impairment test is performed each year as of July 1st. Upon completion of this year's test, the estimated fair value of net assets was greater than carrying value of the Company. We will continue to monitor our performance and evaluate our goodwill for impairment annually or more frequently as needed.

For additional information regarding goodwill, see “Notes to Consolidated Financial Statements-Summary of Significant Accounting Policies,” included in Part IV, Item 15 of this report and “Risk Factors-Risks Relating to the Market and Our Business,” included in Part I, Item 1A of this report.

Other Real Estate Owned

Real estate acquired in satisfaction of loans is initially carried at current fair value less estimated selling costs. Any excess of loan carrying value over the fair value of the real estate acquired is recorded as a charge to the allowance for loan losses. Subsequent declines in fair value less estimated selling costs are included in OREO expense. Subsequent increases in fair value less estimated selling costs are recorded as a reduction in OREO expense to the extent of recognized losses. Determining the fair value of OREO is considered a critical accounting estimate due to the assets' sensitivity to changes in estimates and assumptions used. Changes in these estimates and assumptions are reasonably possible and may have a material impact on our consolidated financial statements, liquidity or results of operations. For additional information regarding OREO, see “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies” and “Notes to Consolidated Financial Statements—Other Real Estate Owned,” included in Part IV, Item 15 of this report.

Results of Operations

The following discussion of our results of operations compares the years ended December 31, 2012 to December 31, 2011 and the years ended December 31, 2011 to December 31, 2010.

Net Interest Income

Net interest income, the largest source of our operating income, is derived from interest, dividends and fees received on interest earning assets, less interest expense incurred on interest bearing liabilities. Interest earning assets primarily include loans and investment securities. Interest bearing liabilities include deposits and various forms of indebtedness. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the composition of interest earning assets and interest bearing liabilities.

The most significant impact on our net interest income between periods is derived from the interaction of changes in the volume of and rates earned or paid on interest earning assets and interest bearing liabilities. The volume of loans, investment

securities and other interest earning assets, compared to the volume of interest bearing deposits and indebtedness, combined with the interest rate spread, produces changes in the net interest income between periods.

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The following table presents, for the periods indicated, condensed average balance sheet information, together with interest income and yields earned on average interest earning assets and interest expense and rates paid on average interest bearing liabilities.

Average Balance Sheets, Yields and Rates

(Dollars in thousands)

	Year Ended December 31,			2011			2010			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	
Interest earning assets:										
Loans (1) (2)	\$4,176,439	\$232,724	5.57 %	\$4,275,128	\$247,492	5.79 %	\$4,482,219	\$268,279	5.99 %	
Investment securities (2)	2,123,231	44,613	2.10	2,026,192	48,795	2.41	1,663,211	49,626	2.98	
Federal funds sold	2,341	13	0.56	2,231	13	0.58	6,238	22	0.35	
Interest bearing deposits in banks	486,203	1,235	0.25	414,375	1,050	0.25	429,657	1,093	0.25	
Total interest earnings assets	6,788,214	278,585	4.10	6,717,926	297,350	4.43	6,581,325	319,020	4.85	
Non-earning assets	627,498			618,454			665,012			
Total assets	\$7,415,712			\$7,336,380			\$7,246,337			
Interest bearing liabilities:										
Demand deposits	\$1,624,687	\$2,390	0.15 %	\$1,269,676	\$3,057	0.24 %	\$1,135,208	\$3,430	0.30 %	
Savings deposits	1,496,254	3,562	0.24	1,714,294	6,448	0.38	1,530,844	8,934	0.58	
Time deposits	1,473,501	16,354	1.11	1,737,401	24,028	1.38	2,143,899	41,585	1.94	
Repurchase agreements	501,192	579	0.12	500,882	695	0.14	480,276	879	0.18	
Other borrowed funds (3)	16	—	—	5,582	—	—	5,779	3	0.05	
Long-term debt	37,185	1,981	5.33	37,442	1,975	5.27	46,024	2,433	5.29	
Preferred stock pending redemption	1,913	131	6.85	—	—	—	—	—	—	
Subordinated debentures held by by subsidiary trusts	102,307	5,117	5.00	123,715	5,828	4.71	123,715	5,843	4.72	
Total interest bearing liabilities	5,237,055	30,114	0.58	5,388,992	42,031	0.78	5,465,745	63,107	1.15	
Non-interest bearing deposits	1,346,787			1,146,535			1,021,409			
Other non-interest bearing liabilities	47,799			48,532			58,778			
Stockholders' equity	784,071			752,321			700,405			
Total liabilities and stockholders' equity	\$7,415,712			\$7,336,380			\$7,246,337			
		\$248,471			\$255,319			\$255,913		

Net FTE interest income			
Less FTE adjustments (2)	(4,685)	(4,467)	(4,474)
Net interest income from consolidated statements of income	\$243,786	\$250,852	\$251,439
Interest rate spread	3.52 %	3.65 %	3.70 %
Net FTE interest margin (4)	3.66 %	3.80 %	3.89 %
Cost of funds, including non-interest bearing demand deposits (5)	0.46 %	0.64 %	0.97 %

(1) Average loan balances include non-accrual loans. Interest income on loans includes amortization of deferred loan fees net of deferred loan costs, which is not material.

(2) Interest income and average rates for tax exempt loans and securities are presented on a FTE basis.

(3) Includes interest on federal funds purchased and other borrowed funds. Excludes long-term debt.

Net FTE interest margin during the period equals (i) the difference between interest income on interest earning (4) assets and the interest expense on interest bearing liabilities, divided by (ii) average interest earning assets for the period.

Cost of funds including non-interest bearing demand deposits equals (i) interest expense on interest bearing (5) liabilities, divided by (ii) the sum of average interest bearing liabilities and average non-interest bearing demand deposits.

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Our FTE net interest income decreased \$6.8 million, or 2.7%, to \$248.5 million in 2012, compared to \$255.3 million in 2011, and our net FTE interest margin ratio decreased 14 basis points to 3.66% in 2012, compared to 3.80% in 2011. The decrease in our net FTE interest income and compression in our net FTE interest margin ratio were attributable to lower outstanding loan balances and lower yields earned on our loan and investment portfolios, which were partially offset by reductions in the cost of interest bearing liabilities combined with a continued shift away from higher-costing savings and time deposits to lower-costing demand deposits. Management expects further compression in the net FTE interest margin ratio in future quarters resulting from the continuing low interest rate environment.

Net FTE interest income decreased \$594 thousand, or less than 1.0%, to \$255.3 million in 2011, compared to \$255.9 million in 2010, and our net FTE interest margin ratio decreased 9 basis points to 3.80% in 2011, compared to 3.89% in 2010. Decrease in net FTE interest income and compression in our net FTE interest margin ratio were attributable to lower yields earned on our investment and loan portfolios and lower outstanding loan balances, the effects of which were substantially offset by a 37 basis point reduction in the cost of interest bearing liabilities.

The table below sets forth, for the periods indicated, a summary of the changes in interest income and interest expense resulting from estimated changes in average asset and liability balances (volume) and estimated changes in average interest rates (rate). Changes which are not due solely to volume or rate have been allocated to these categories based on the respective percent changes in average volume and average rate as they compare to each other.

Analysis of Interest Changes Due To Volume and Rates

(Dollars in thousands)

	Year Ended December 31, 2012			Year Ended December 31, 2011			Year Ended December 31, 2010		
	compared with December 31, 2011			compared with December 31, 2010			compared with December 31, 2009		
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
Interest earning assets:									
Loans (1)	\$(5,713)	\$(9,055)	\$(14,768)	\$(12,395)	\$(8,392)	\$(20,787)	\$(10,762)	\$(2,758)	\$(13,520)
U.S. government agency and mortgage-backed securities	1,531	(4,642)	(3,111)	9,537	(11,450)	(1,913)	21,136	(21,199)	(63)
Other securities	—	47	47	—	—	—	(38)	(12)	(50)
Tax exempt securities (1)	1,315	(2,433)	(1,118)	841	241	1,082	(73)	(523)	(596)
Federal funds sold	1	(1)	—	(14)	5	(9)	(238)	7	(231)
Interest bearing deposits in banks	182	3	185	(39)	(4)	(43)	601	(28)	573
Total change	(2,684)	(16,081)	(18,765)	(2,070)	(19,600)	(21,670)	10,626	(24,513)	(13,887)
Interest bearing liabilities:									
Demand deposits	855	(1,522)	(667)	406	(779)	(373)	196	(834)	(638)
Savings deposits	(820)	(2,066)	(2,886)	1,071	(3,557)	(2,486)	1,588	(2,687)	(1,099)
Time deposits	(3,650)	(4,024)	(7,674)	(7,885)	(9,672)	(17,557)	405	(17,945)	(17,540)
Repurchase agreements	—	(116)	(116)	38	(222)	(184)	106	(3)	103
Borrowings (2)	—	—	—	—	(3)	(3)	(1,228)	(136)	(1,364)
Long-term debt	(14)	20	6	(454)	(4)	(458)	(1,375)	559	(816)
Preferred stock pending redemption	131	—	131	—	—	—	—	—	—
Subordinated debentures held by subsidiary trusts	(1,008)	297	(711)	—	(15)	(15)	—	(437)	(437)

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Total change	(4,506)	(7,411)	(11,917)	(6,824)	(14,252)	(21,076)	(308)	(21,483)	(21,791)
Increase (decrease) in									
FTE net interest income	\$1,822	\$(8,670)	\$(6,848)	\$4,754	\$(5,348)	\$(594)	\$10,934	\$(3,030)	\$7,904
(1)									

(1) Interest income and average rates for tax exempt loans and securities are presented on a FTE basis.

(2) Includes interest on federal funds purchased and other borrowed funds.

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Provision for Loan Losses

The provision for loan losses supports the allowance for loan losses known and inherent in the loan portfolio at each balance sheet date. We perform a quarterly assessment of the risks inherent in our loan portfolio, as well as a detailed review of each significant loan with identified weaknesses. Based on this analysis, we record a provision for loan losses in order to maintain the allowance for loan losses at appropriate levels. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. Fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses. Ultimate loan losses may vary from current estimates. For additional information concerning the provision for loan losses, see “—Critical Accounting Estimates and Significant Accounting Policies” included herein.

Our provision for loan losses decreased \$17.4 million, or 29.9%, to \$40.8 million in 2012, as compared to \$58.2 million in 2011, and decreased \$8.7 million, or 13.1%, to \$58.2 million in 2011, as compared to \$66.9 million in 2010. Fluctuations in the provision for loan losses reflect management's estimate of possible loan loss based upon evaluation of the borrowers' ability to repay, collateral underlying loans, loan loss trends and estimated effects of current economic conditions on our loan portfolio. The level of provision for loan losses in 2012 is reflective of improvement in and stabilization of credit quality as evidenced by declining levels of non-performing and criticized loans, as compared to 2011. The level of provision in 2011 reflects decreases in the level of criticized loans and overall loan volume in 2011, as compared to 2010. For additional information concerning non-performing assets, see “—Financial Condition—Non-Performing Assets” herein.

Non-interest Income

Our principal sources of non-interest income include income from the origination and sale of loans; other service charges, commissions and fees; service charges on deposit accounts; and wealth management revenues. Non-interest income increased \$23.0 million, or 25.0%, to \$114.9 million in 2012, as compared to \$91.9 million in 2011, and increased \$961 thousand, or 1.1%, to \$91.9 million in 2011, from \$90.9 million in 2010. Significant components of these fluctuations are discussed below.

Income from the origination and sale of loans includes origination and processing fees on residential real estate loans held for sale and gains on residential real estate loans sold to third parties. Fluctuations in market interest rates have a significant impact on revenues generated from the origination and sale of loans. Higher interest rates can reduce the demand for home loans and loans to refinance existing mortgages. Conversely, lower interest rates generally stimulate refinancing and home loan origination. Income from the origination and sale of loans increased \$20.6 million, or 97.6%, to \$41.8 million in 2012, as compared to \$21.2 million in 2011. Record low mortgage interest rates continued to spur residential mortgage loan originations in our market areas in 2012, resulting in higher income from the origination and sale of loans. Refinancing activity accounted for 65% of our residential mortgage loan origination production in 2012, as compared to 56% in 2011. Management does not expect the current level of refinancing activity to continue in future quarters.

Income from the origination and sale of loans decreased \$1.7 million, or 7.5%, to \$21.2 million in 2011, from \$22.9 million in 2010, primarily due to declines in refinancing activity. Although mortgage rates were generally stable in 2011, as compared to 2010, and decreased in the latter part of 2011, refinancing activity declined as many homeowners who qualified for refinancing did so in 2010. Refinancing activity accounted for approximately 56% of

the Company's residential real estate loan originations during 2011, as compared to 60% during 2010.

Other service charges, commissions and fees primarily include debit and credit card interchange income, mortgage servicing fees, insurance and other commissions and ATM service charge revenues. Other service charges, commissions and fees increased \$2.5 million, or 8.0%, to \$34.2 million in 2012, as compared to \$31.7 million in 2011, and increased \$2.2 million, or 7.4%, to \$31.7 million in 2011, from \$29.5 million in 2010. These increases were primarily due to higher debit and credit card interchange fee revenue resulting from higher transaction volumes.

Wealth management revenues are principally comprised of fees earned for management of trust assets and investment services revenues. Wealth management revenues increased \$739 thousand, or 5.4%, to \$14.3 million in 2012, as compared to \$13.6 million in 2011, and increased \$1.2 million, or 9.6% to \$13.6 million in 2011, from \$12.4 million in 2010. These increases are primarily due to the addition of new trust customers combined with increases in the market values of new and existing assets under trust management.

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During 2012, we recorded net gains on the disposal of investment securities of \$348 thousand, as compared to net gains of \$1.5 million in 2011 and net gains of \$170 thousand in 2010. Net gains on disposal of investment securities were primarily due to recognition of unamortized discounts on investment securities called by the issuing agencies.

Other income primarily includes company-owned life insurance revenues, net gains or losses on securities held under deferred compensation plans, check printing income, agency stock dividends and gains on sales of miscellaneous assets. Other income increased \$507 thousand, or 8.1%, to \$6.8 million in 2012, as compared to \$6.3 million in 2011. This increase was primarily due to increases in the values of securities held under deferred compensation plans. During 2012, market value adjustments for securities held under deferred compensation plans resulted in increases in other income of \$648 thousand, as compared to reductions in other income of \$161 thousand in 2011. In addition, during second quarter 2012, we recorded a one-time gain of \$581 thousand recorded on the sale of a bank building. These increases were partially offset by decreases in company-owned life insurance revenues during 2012, as compared to 2011.

Other income decreased \$1.5 million, or 19.8%, to \$6.3 million in 2011, from \$7.8 million in 2010, primarily due to fluctuations of values of securities held under deferred compensation plans. During 2011, market value adjustments for securities held under deferred compensation plans resulted in reductions in other income of \$161 thousand, as compared to increases in other income of \$545 thousand in 2010. In addition, we recorded a \$249 thousand one-time gain on the sale of our student loan portfolio in 2010.

Non-interest Expense

Non-interest expense increased \$11.2 million, or 5.1%, to \$229.6 million in 2012, as compared to \$218.4 million in 2011. Non-interest expense decreased \$2.6 million, or 1.2%, to \$218.4 million in 2011, from \$221.0 million in 2010. Significant components of these fluctuations are discussed below.

Salaries and wages increased \$6.3 million, or 7.5%, to \$89.8 million in 2012, as compared to \$83.6 million in 2011, primarily due to inflationary wage increases, higher incentive bonus accruals reflective of our improved performance, and increases in commissions and overtime related to the substantial volume of residential real estate loan activity in 2012.

Salaries and wages increased \$187 thousand, or less than 1.0%, to \$83.6 million in 2011, as compared to \$83.4 million in 2010. Increases resulting from normal inflationary wage increases and higher incentive bonus accruals reflective of improved performance in 2011 were primarily offset by reductions in full-time equivalent employees.

Employee benefits increased \$1.6 million, or 5.6%, to \$29.3 million in 2012, as compared to \$27.8 million in 2011, primarily due to the combined effects of increases in the market value of securities held under deferred compensation plans, higher stock-based compensation expense and increases in profit sharing accruals reflective of our improved performance in 2012. These increases were partially offset by a \$1.0 million reduction in group health insurance expense reflecting favorable claims experience in 2012.

Employee benefits decreased \$1.5 million, or 5.1%, to \$27.8 million in 2011, as compared to \$29.3 million in 2010, primarily due to lower group health insurance costs, reductions in the market values of securities held under deferred compensation plans and reductions in full-time equivalent employees.

OREO expense is recorded net of OREO income. Variations in net OREO expense between periods are primarily due to fluctuations in write-downs of the estimated fair value of OREO properties, net gains and losses recorded on the

sale of OREO properties and carrying costs and/or operating expenses of OREO properties. Net OREO expense increased \$748 thousand, or 8.6%, to \$9.4 million in 2012, as compared to \$8.7 million in 2011, primarily due to additional carrying costs of OREO properties foreclosed in 2012. During 2012, OREO expense included net operating expenses of \$3.7 million, write-downs in the estimated fair value of OREO properties of \$6.7 million and net gains on the sale of OREO properties of \$1.0 million. During 2011, OREO expense included net operating expenses of \$1.8 million, write-downs in the estimated fair value of OREO properties of \$7.5 million and net gains on the sale of OREO properties of \$567 thousand.

Net OREO expense increased \$982 thousand, or 12.8%, to \$8.7 million in 2011, as compared to \$7.7 million in 2010, primarily due to write-downs of the estimated fair value of OREO properties. During 2011, we recorded write-downs of the estimated fair value of OREO properties of \$7.5 million, compared to \$6.7 million of write-downs of the estimated fair value of OREO properties during 2010.

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FDIC insurance premiums decreased \$863 thousand, or 11.8%, to \$6.5 million in 2012, as compared to \$7.3 million in 2011, and decreased \$2.7 million, or 27.0%, to \$7.3 million in 2011, from \$10.0 million in 2010. In February 2011, the FDIC issued a final rule that, among other things, modified the definition of an institution's deposit insurance assessment base and revised assessment rate schedules. These changes, which became effective April 1, 2011, reduced the Company's FDIC insurance premiums.

Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. Mortgage servicing rights amortization increased \$276 thousand, or 8.6%, to \$3.5 million in 2012, as compared to \$3.2 million in 2011. Mortgage servicing rights amortization decreased \$1.4 million, or 30.1%, to \$3.2 million in 2011, from \$4.6 million in 2010, primarily due to lower prepayment rates and the December 2010 sale of mortgage servicing rights with a carrying value of \$5 million.

Mortgage servicing rights are evaluated quarterly for impairment based on the fair value of the mortgage servicing rights. The fair value of mortgage servicing rights is estimated 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. Impairment adjustments are recorded through a valuation allowance. The valuation allowance is adjusted for changes in impairment through a charge to current period earnings. Fluctuations in the fair value of mortgage servicing rights are primarily due to changes in assumptions regarding prepayments of the underlying mortgage loans, which typically correspond with changes in market interest rates. During 2012, we reversed previously recorded impairment of \$771 thousand, as compared to recording additional impairment of \$1.3 million in 2011, and the reversal of previously recorded impairment of \$787 thousand during 2010.

Other expenses primarily include advertising and public relations costs; office supply, postage, freight, telephone and travel expenses; donations expense; debit and credit card expenses; board of director fees; and other losses. Other expense increased \$5.2 million, or 11.9%, to \$48.9 million in 2012, as compared to \$43.7 million in 2011, primarily due to non-recurring expenses recorded during the first and second quarters of 2012. During first quarter 2012, we recorded as other expense \$3.0 million of estimated loan collection and settlement costs related to one borrower and, during second quarter 2012, we recorded \$1.5 million of donations expense in conjunction with the sale of a bank building to a charitable organization and wrote-off \$428 thousand of unamortized issuance costs associated with the redemption of junior subordinated debentures. Also contributing to the increases in other expense in 2012, as compared to 2011, were increases of \$1.4 million in debit card processing expenses, the result of changes in per transaction processing costs and increases in transaction volumes. Other expense increased \$1.1 million, or 2.6%, to \$43.7 million in 2011, from \$42.6 million in 2010, primarily due to higher legal expenses associated with foreclosure and collection efforts.

Income Tax Expense

Our effective federal tax rate was 29.6% for the year ended December 31, 2012, 28.1% for the year ended December 31, 2011 and 26.8% for the year ended December 31, 2010. Increases in effective federal income tax rates are primarily due to higher levels of taxable income without a proportional increase in tax exempt interest income on loan and investment securities.

State income tax applies primarily to pretax earnings generated within Montana and South Dakota. Our effective state tax rate was 4.4% for the year ended December 31, 2012 and 4.6% for the years ended December 31, 2011 and 2010.

Net Income Available to Common Shareholders

Net income available to common shareholders was \$54.9 million, or \$1.27 per diluted share, in 2012, compared to \$41.1 million, or \$0.96 per diluted share, in 2011 and \$33.9 million, or \$0.85 per diluted share, in 2010.

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Summary of Quarterly Results

The following table presents unaudited quarterly results of operations for the fiscal years ended December 31, 2012 and 2011.

Quarterly Results

(Dollars in thousands except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Year Ended December 31, 2012:					
Interest income	\$69,057	\$69,067	\$68,175	\$67,601	\$273,900
Interest expense	8,423	7,893	7,170	6,628	30,114
Net interest income	60,634	61,174	61,005	60,973	243,786
Provision for loan losses	11,250	12,000	9,500	8,000	40,750
Net interest income after provision for loan losses	49,384	49,174	51,505	52,973	203,036
Non-interest income	26,382	27,662	30,182	30,635	114,861
Non-interest expense	57,440	57,299	57,064	57,832	229,635
Income before income taxes	18,326	19,537	24,623	25,776	88,262
Income tax expense	6,112	6,527	8,468	8,931	30,038
Net income	12,214	13,010	16,155	16,845	58,224
Preferred stock dividends	853	853	863	731	3,300
Net income available to common shareholders	\$11,361	\$12,157	\$15,292	\$16,114	\$54,924
Basic earnings per common share	\$0.26	\$0.28	\$0.36	\$0.37	\$1.28
Diluted earnings per common share	0.26	0.28	0.35	0.37	1.27
Dividends paid per common share	0.12	0.12	0.12	0.25	0.61
Year Ended December 31, 2011:					
Interest income	\$73,843	\$73,551	\$73,483	\$72,006	\$292,883
Interest expense	12,045	11,024	9,991	8,971	42,031
Net interest income	61,798	62,527	63,492	63,035	250,852
Provision for loan losses	15,000	15,400	14,000	13,751	58,151
Net interest income after provision for loan losses	46,798	47,127	49,492	49,284	192,701
Non-interest income	20,159	21,591	23,125	26,997	91,872
Non-interest expense	52,958	54,192	55,041	56,221	218,412
Income before income taxes	13,999	14,526	17,576	20,060	66,161
Income tax expense	4,493	4,672	5,655	6,795	21,615
Net income	9,506	9,854	11,921	13,265	44,546
Preferred stock dividends	844	853	862	863	3,422
Net income available to common shareholders	\$8,662	\$9,001	\$11,059	\$12,402	\$41,124
Basic earnings per common share	\$0.20	\$0.21	\$0.26	\$0.29	\$0.96
Diluted earnings per common share	0.20	0.21	0.26	0.29	0.96
Dividends paid per common share	0.1125	0.1125	0.1125	0.1125	0.4500

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Financial Condition

Total assets increased \$396 million, or 5.4%, to \$7,722 million as of December 31, 2012, from \$7,326 million as of December 31, 2011, due to deposit growth. Total assets decreased \$175 million, or 2.3%, to \$7,326 million as of December 31, 2011, from \$7,501 million as of December 31, 2010, due to lower outstanding funding sources, including deposits and repurchase agreements.

Loans

Our loan portfolio consists of a mix of real estate, consumer, commercial, agricultural and other loans, including fixed and variable rate loans. Fluctuations in the loan portfolio are directly related to the economies of the communities we serve. While each loan originated generally must meet minimum underwriting standards established in our credit policies, lending officers are granted certain levels of authority in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area. For additional information regarding our underwriting standards and loan approval policies, see "Community Banking—Lending Activities", included in Part I, Item I of this report.

Total loans increased \$37 million, or less than 1.0%, to \$4,224 million as of December 31, 2012, from \$4,187 million as of December 31, 2011. During 2012, modest growth in residential real estate, agricultural and indirect consumer loans was partially offset by decreases in commercial real estate and land acquisition and development loans.

Total loans decreased \$181 million, or 4.2% to \$4,187 million as of December 31, 2011, from \$4,368 million as of December 31, 2010, primarily due to weak loan demand in our market areas, the result of economic uncertainty, and to the movement of lower quality loans out of the loan portfolio through charge-off, pay-off or foreclosure.

The following table presents the composition of our loan portfolio as of the dates indicated:

Loans Outstanding

(Dollars in thousands)

	As of December 31,									
	2012	Percent	2011	Percent	2010	Percent	2009	Percent	2008	Percent
Loans										
Real estate:										
Commercial	\$1,497,272	35.4 %	\$1,553,155	37.1 %	\$1,565,665	35.8 %	\$1,556,273	34.4 %	\$1,483,967	31.1 %
Construction	334,529	7.9	400,773	9.6	527,458	12.1	636,892	14.1	790,177	16.5
Residential	708,339	16.8	571,943	13.7	549,604	12.6	539,098	11.9	587,464	12.3
Agricultural	177,244	4.2	175,302	4.2	182,794	4.2	195,045	4.3	191,831	4.0
Consumer	636,794	15.1	616,071	14.7	646,580	14.8	677,548	14.9	669,731	14.0
Commercial	688,753	16.3	693,261	16.6	730,471	16.7	750,647	16.6	853,798	17.9
Agricultural	113,627	2.7	119,710	2.8	116,546	2.7	134,470	3.0	145,876	3.1
Other loans	912	—	2,813	—	2,383	0.1	1,601	—	2,893	0.1
Mortgage										
loans held	66,442	1.6	53,521	1.3	46,408	1.0	36,430	0.8	47,076	1.0
for sale										
Total loans	4,223,912	100.0 %	4,186,549	100.0 %	4,367,909	100.0 %	4,528,004	100.0 %	4,772,813	100.0 %
Less										
allowance										
for loan	100,511		112,581		120,480		103,030		87,316	
losses										

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Net loans	\$4,123,401	\$4,073,968	\$4,247,429	\$4,424,974	\$4,685,497
Ratio of allowance to total loans	2.38 %	2.69 %	2.76 %	2.28 %	1.83 %

Real Estate Loans. We provide interim construction and permanent financing for both single-family and multi-unit properties, medium-term loans for commercial, agricultural and industrial property and/or buildings and equity lines of credit secured by real estate.

Commercial real estate loans. Commercial real estate loans include loans for property and improvements used commercially by the borrower or for lease to others for the production of goods or services. Approximately 57% of our commercial real estate loans as of December 31, 2012 and 2011, were owner occupied. Commercial real estate loans decreased \$56 million, or 3.6%, to \$1,497 million as of December 31, 2012, from \$1,553 million as of December 31, 2011, and decreased \$13 million,

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or less than 1.0%, to \$1,553 million as of December 31, 2011, from \$1,566 million as of December 31, 2010. Management attributes these decreases to the movement of lower quality loans out of the loan portfolio through charge-off, pay-off or foreclosure and low loan demand.

Construction loans. Construction loans are primarily to commercial builders for residential lot development and the construction of single-family residences and commercial real estate properties. Construction loans are generally underwritten pursuant to pre-approved permanent financing. During the construction phase the borrower pays interest only. As of December 31, 2012, our construction loan portfolio was divided among the following categories: approximately \$49 million, or 14.7%, residential construction; approximately \$65 million, or 19.4%, commercial construction; and, approximately \$220 million, or 65.9%, land acquisition and development. As of December 31, 2011, our construction loan portfolio was divided among the following categories: approximately \$61 million, or 15.3%, residential construction; approximately \$61 million, or 15.2%, commercial construction; and, approximately \$279 million, or 69.5%, land acquisition and development.

Construction loans decreased \$66 million, or 16.5%, to \$335 million as of December 31, 2012, from \$401 million as of December 31, 2011, primarily due to movement of lower quality loans out of the loan portfolio through charge-off and foreclosure. Construction loans decreased \$127 million, or 24.0%, to \$401 million as of December 31, 2011, from \$527 million as of December 31, 2010. Management attributes the decrease in 2011 to the continuing impact of general declines in new home construction in our market areas, particularly in markets dependent upon resort and second home communities, and, to a lesser extent, the movement of lower quality loans out of our loan portfolio through charge-off, pay-off or foreclosure.

Residential real estate loans. Residential real estate loans increased \$136 million, or 23.8%, to \$708 million as of December 31, 2012, from \$572 million as of December 31, 2011, and increased \$22 million, or 4.1%, to \$572 million as of December 31, 2011, from \$550 million as of December 31, 2010. Record low mortgage interest rates resulted in increased residential real estate loan production during 2012 and 2011. Historically, we have sold a significant portion of our residential real estate loan production in the secondary market; however, during 2010 we began to retain more of our residential real estate loans. Retained residential real estate loans are typically secured by first liens on the financed property and generally mature in less than fifteen years. Included in residential real estate loans were home equity loans and lines of credit of \$274 million as of December 31, 2012 and \$312 million as of December 31, 2011.

Consumer Loans. Our consumer loans include direct personal loans, credit card loans and lines of credit; and indirect loans created when we purchase consumer loan contracts advanced for the purchase of automobiles, boats and other consumer goods from the consumer product dealer network within the market areas we serve. Personal loans and indirect dealer loans are generally secured by automobiles, recreational vehicles, boats and other types of personal property and are made on an installment basis. Credit cards are offered to customers in our market areas. Lines of credit are generally floating rate loans that are unsecured or secured by personal property. Approximately 68.8% and 66.2% of our consumer loans as of December 31, 2012 and 2011, respectively, were indirect consumer loans.

Consumer loans increased \$21 million, or 3.4%, to \$637 million as of December 31, 2012, from \$616 million as of December 31, 2011, due to expansion of our indirect lending program within our existing market areas and competitive pricing. Consumer loans decreased \$31 million, or 4.7%, to \$616 million as of December 31, 2011, from \$647 million as of December 31, 2010. Approximately 52% of this decrease occurred in indirect consumer loans and was the result of competitive rate pressure. Management attributes the remaining 2011 decrease to changes in consumer behavior resulting from continuing economic uncertainty.

Commercial Loans. We provide a mix of variable and fixed rate commercial loans. The loans are typically made to small and medium-sized manufacturing, wholesale, retail and service businesses for working capital needs and

business expansions. Commercial loans generally include lines of credit, business credit cards and loans with maturities of five years or less. The loans are generally made with business operations as the primary source of repayment, but also include collateralization by inventory, accounts receivable, equipment and/or personal guarantees.

Commercial loans decreased \$5 million, or less than 1.0%, to \$689 million as of December 31, 2012, from \$693 million as of December 31, 2011. Management attributes these decreases to the movement of lower quality loans out of the loan portfolio through charge-off, pay-off or foreclosure and low loan demand.

Commercial loans decreased \$37 million, or 5.1%, to \$693 million as of December 31, 2011, from \$730 million as of December 31, 2010, primarily due to the continuing effects of economic uncertainty on borrowers in our market areas and the movement of lower quality loans out of our loan portfolio through charge-off, pay-off or foreclosure.

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Agricultural Loans. Our agricultural loans generally consist of short and medium-term loans and lines of credit that are primarily used for crops, livestock, equipment and general operations. Agricultural loans are ordinarily secured by assets such as livestock or equipment and are repaid from the operations of the farm or ranch. Agricultural loans generally have maturities of five years or less, with operating lines for one production season. Agricultural loans decreased \$6 million, or 5.1%, to \$114 million as of December 31, 2012, from \$120 million as of December 31, 2011 and increased \$3 million, or 2.7%, to \$120 million as of December 31, 2011, from \$117 million as of December 31, 2010.

The following table presents the maturity distribution of our loan portfolio and the sensitivity of the loans to changes in interest rates as of December 31, 2012:

Maturities and Interest Rate Sensitivities
(Dollars in thousands)

	Within One Year	One Year to Five Years	After Five Years	Total
Real estate	\$1,015,206	\$1,190,964	\$511,214	\$2,717,384
Consumer	220,017	372,038	44,739	636,794
Commercial	419,157	212,438	57,158	688,753
Agricultural	92,452	20,140	1,035	113,627
Other	912	—	—	912
Mortgage loans held for sale	66,442	—	—	66,442
Total loans	\$1,814,186	\$1,795,580	\$614,146	\$4,223,912
Loans at fixed interest rates	\$1,067,319	\$1,290,240	\$143,689	\$2,501,248
Loans at variable interest rates	746,867	505,340	362,658	1,614,865
Non-accrual loans	—	—	107,799	107,799
Total loans	\$1,814,186	\$1,795,580	\$614,146	\$4,223,912

Non-Performing Assets

Non-performing assets include non-performing loans and OREO. The following table sets forth information regarding non-performing assets as of the dates indicated:

Non-Performing Assets

(Dollars in thousands)

As of December 31,	2012	2011	2010	2009	2008	
Non-performing loans:						
Nonaccrual loans	\$107,799	\$199,983	\$195,342	\$115,030	\$85,632	
Accruing loans past due 90 days or more	2,277	4,111	1,852	4,965	3,828	
Troubled debt restructurings	31,932	37,376	13,490	4,683	1,462	
Total non-performing loans	142,008	241,470	210,684	124,678	90,922	
OREO	32,571	37,452	33,632	38,400	6,025	
Total non-performing assets	\$174,579	\$278,922	\$244,316	\$163,078	\$96,947	
Non-performing loans to total loans	3.36	%5.77	%4.82	%2.75	%1.90	%
Non-performing assets to total loans and OREO	4.10	6.60	5.55	3.57	2.03	
Non-performing assets to total assets	2.26	3.81	3.26	2.28	1.46	

Non-performing loans. Non-performing loans include non-accrual loans, loans contractually past due 90 days or more and still accruing interest and loans renegotiated in troubled debt restructurings. Impaired loans are a subset of non-performing loans and include all loans risk rated doubtful, loans placed on non-accrual status and loans

renegotiated in troubled debt restructurings with the exception of consumer loans. We monitor and evaluate collateral values on impaired loans quarterly. Appraisals are required on all impaired loans every 18-24 months, or sooner as conditions necessitate. We monitor real estate values by market for our larger market areas. Based on trends in real estate values, adjustments may be made to the appraised value based on time elapsed between the appraisal date and the impairment analysis or a new appraisal may be ordered. Appraised values in our smaller market areas may be adjusted based on trends identified through discussions with local realtors

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and appraisers. Appraisals are also adjusted for selling costs. The adjusted appraised value is then compared to the loan balance and any resulting shortfall is recorded in the allowance for loan losses as a specific valuation allowance. Overall increases in specific valuation allowances will result in higher provisions for loan losses. Provisions for loan losses are also impacted by changes in the historical or general valuation elements of the allowance for loan losses as well.

The following table sets forth the allocation of our non-performing loans among our different types of loans as of the dates indicated.

Non-Performing Loans by Loan Type

(Dollars in thousands)

As of December 31,	2012	2011	2010	2009	2008
Real estate	\$ 125,456	\$ 216,289	\$ 169,961	\$ 101,751	\$ 79,167
Consumer	2,963	3,455	2,720	2,265	2,944
Commercial	12,825	20,857	36,910	19,774	8,594
Agricultural	764	869	1,093	888	217
Total non-performing loans	\$ 142,008	\$ 241,470	\$ 210,684	\$ 124,678	\$ 90,922

As of December 31, 2012, our non-performing real estate loans were divided among the following categories: \$23 million, or 18.6%, land and land development; \$74 million, or 59.2%, commercial; \$3 million, or 2.1% residential construction; \$12 million, or 9.4%, residential; \$8 million, or 6.5% commercial construction; and, \$5 million, or 4.2%, agricultural.

As of December 31, 2011, our non-performing real estate loans were divided among the following categories: \$63 million, or 29.2%, land and land development; \$87 million, or 40.2%, commercial; \$14 million, or 6.5% residential construction; \$20 million, or 9.3%, residential; \$25 million, or 11.3% commercial construction; and, \$7 million, or 3.5%, agricultural.

Total non-performing loans decreased \$99 million, or 41.2%, to \$142 million as of December 31, 2012, from \$241 million as of December 31, 2011, and increased \$31 million, or 14.6%, to \$241 million as of December 31, 2011, from \$211 million as of December 31, 2010. Significant components of these fluctuations are discussed below.

Non-accrual loans. We generally place loans on non-accrual when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on non-accrual status, any interest previously accrued but not collected is reversed from income. Approximately \$8.5 million, \$12.5 million and \$8.9 million of gross interest income would have been accrued if all loans on non-accrual had been current in accordance with their original terms for the years ended December 31, 2012, 2011 and 2010, respectively.

Non-accrual loans decreased \$92 million, or 46.1%, to \$108 million as of December 31, 2012, from \$200 million as of December 31, 2011, primarily due to movement of lower quality loans out of the loan portfolio through charge-off, pay-off or foreclosure. As of December 31, 2012, approximately 47% of our non-accrual loans were commercial real estate loans and approximately 18% were land acquisition and development loans. Non-accrual loans increased \$5 million, or 2.4%, to \$200 million at December 31, 2011, from \$195 million at December 31, 2010.

Troubled Debt Restructuring. Modifications of performing loans are made in the ordinary course of business and are completed on a case-by-case basis as negotiated with the borrower. Loan modifications typically include interest rate concessions, interest-only periods, short-term payment deferrals and extension of amortization periods to provide payment relief. A loan modification is considered a troubled debt restructuring if the borrower is experiencing financial difficulties and we, for economic or legal reasons, grant a concession to the borrower that we would not

otherwise consider. Those modifications deemed to be troubled debt restructurings are monitored centrally to ensure proper classification as a troubled debt restructuring and if or when the loan may be placed on accrual status.

As of December 31, 2012, we had loans renegotiated in troubled debt restructurings of \$77 million, of which \$45 million were reported as non-accrual loans and \$32 million were on accrual status and reported as troubled debt restructurings in the non-performing asset and non-performing loan tables above. As of December 31, 2012, approximately 94% of our loans renegotiated in troubled debt restructurings were performing in accordance with their modified terms. Troubled debt restructurings in the preceding non-performing asset and non-performing loan tables includes \$17 thousand of accruing loans past due 90 days or more as of December 31, 2012.

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As of December 31, 2011, we had loans renegotiated in troubled debt restructurings of \$95 million, of which \$58 million were reported as non-accrual loans and \$37 million were on accrual status and reported as troubled debt restructurings in the non-performing asset and non-performing loan tables above. As of December 31, 2011, approximately 72% of our loans renegotiated in troubled debt restructurings were performing in accordance with their modified terms. Troubled debt restructurings in the preceding non-performing asset and non-performing loan tables includes \$389 thousand of accruing loans past due 90 days or more as of December 31, 2011.

OREO. OREO consists of real property acquired through foreclosure on the collateral underlying defaulted loans. We initially record OREO at fair value less estimated selling costs. Any excess of loan carrying value over the fair value of the real estate acquired is recorded as charge against the allowance for loan losses. Estimated losses that result from the ongoing periodic valuation of these properties are charged to earnings in the period in which they are identified. The fair values of OREO properties are estimated using appraisals and management estimates of current market conditions. OREO properties are appraised every 18-24 months unless deterioration in local market conditions indicates the need to obtain new appraisals sooner. OREO properties are evaluated by management quarterly to determine if additional write-downs are appropriate or necessary based on current market conditions. Quarterly evaluations include a review of the most recent appraisal of the property and reviews of recent appraisals and comparable sales data for similar properties in the same or adjacent market areas. Commercial and agricultural OREO properties are listed with unrelated third party professional real estate agents or brokers local to the areas where the marketed properties are located. Residential properties are typically listed with local realtors, after any redemption period has expired. We rely on these local real estate agents and/or brokers to list the properties on the local multiple listing system, to provide marketing materials and advertisements for the properties and to conduct open houses.

OREO decreased \$5 million, or 13.0%, to \$33 million as of December 31, 2012, from \$37 million as of December 31, 2011. During 2012, the Company recorded additions to OREO of \$44 million, wrote down the fair value of OREO properties by \$7 million and sold OREO with a book value of \$42 million. As of December 31, 2012, 45% of our OREO balance comprised land and land development properties, 32% comprised commercial properties, 22% comprised residential real estate properties and 1% comprised agricultural real estate properties.

OREO increased \$4 million, or 11.4%, to \$37 million as of December 31, 2011 from \$34 million as of December 31, 2010. During 2011, the Company recorded additions to OREO of \$27 million, wrote down the fair value of OREO properties by \$7 million and sold OREO with a book value of \$16 million.

Allowance for Loan Losses

The Company performs a quarterly assessment of the adequacy of its allowance for loan losses in accordance with generally accepted accounting principles. The methodology used to assess the adequacy is consistently applied to the Company's loan portfolio. The allowance for loan losses is established through a provision for loan losses based on our evaluation of known and inherent risk in our loan portfolio at each balance sheet date. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. See the discussion under "Critical Accounting Estimates and Significant Accounting Policies — Allowance for Loan Losses" above.

The allowance for loan losses is increased by provisions charged against earnings and reduced by net loan charge-offs. Loans, or portions thereof, are charged-off when management believes that the collectibility of the principal is

unlikely or, with respect to consumer installment and credit card loans, according to established delinquency schedules.

The allowance for loan losses consists of three elements:

Specific valuation allowances associated with impaired loans. Specific valuation allowances are determined based on assessment of the fair value of the collateral underlying the loans as determined through independent appraisals, (1) the present value of future cash flows, observable market prices and any relevant qualitative or environmental factors impacting the loan. No specific valuation allowances are recorded for impaired loans that are adequately secured.

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Historical valuation allowances based on loan loss experience for similar loans with similar characteristics and trends. Historical valuation allowances are determined by applying percentage loss factors to the credit exposures from outstanding loans. For commercial, agricultural and real estate loans, loss factors are applied based on the (2) internal risk classifications of these loans. For consumer loans, loss factors are applied on a portfolio basis. For commercial, agriculture and real estate loans, loss factor percentages are based on a migration analysis of our historical loss experience, designed to account for credit deterioration. For consumer loans, loss factor percentages are based on a one-year loss history.

(3) General valuation allowances determined based on changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, general economic conditions and other qualitative risk factors both internal and external to us.

Based on the assessment of the adequacy of the allowance for loan losses, management records provisions for loan losses to maintain the allowance for loan losses at appropriate levels.

Loans, or portions thereof, are charged-off against the allowance for loan losses when management believes that the collectability of the principal is unlikely, or, with respect to consumer installment loans, according to an established delinquency schedule. Generally, loans are charged-off when (1) there has been no material principal reduction within the previous 90 days and there is no pending sale of collateral or other assets, (2) there is no significant or pending event which will result in principal reduction within the upcoming 90 days, (3) it is clear that we will not be able to collect all or a portion of the loan, (4) payments on the loan are sporadic, will result in an excessive amortization or are not consistent with the collateral held and (5) foreclosure or repossession actions are pending. Loan charge-offs do not directly correspond with the receipt of independent appraisals or the use of observable market data if the collateral value is determined to be sufficient to repay the principal balance of the loan.

If the impaired loan is adequately collateralized, a specific valuation allowance is not recorded. As such, significant changes in impaired and non-performing loans do not necessarily correspond proportionally with changes in the specific valuation component of the allowance for loan losses. Additionally, management expects the timing of charge-offs will vary between quarters and will not necessarily correspond proportionally to changes in the allowance for loan losses or changes in non-performing or impaired loans due to timing differences among the initial identification of an impaired loan, recording of a specific valuation allowance for the impaired loan and any resulting charge-off of uncollectible principal.

Based on declines in national, regional and local economies which began in 2008, we began to record additional general valuation allowances based on management's estimation of the probable impact that the declines would have on our loan portfolio. Accordingly, beginning in 2008, and continuing in 2009 and 2010, we recorded significantly higher provisions for loan losses to maintain the allowance for loan losses at appropriate levels. During 2008, 2009 and 2010, we experienced higher levels of impaired and non-performing loans as anticipated. Impaired and non-performing loans peaked in mid-2011 and our provision for loan losses, which began decreasing during the last half of 2011, continued to decrease through 2012. Management expects that non-performing and impaired loans will continue to decline as previously identified problem loans make their way through the credit cycle and the volume of newly identified non-performing and impaired loans decreases as economic conditions in our market areas improve.

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The following table sets forth information concerning our allowance for loan losses as of the dates and for the periods indicated.

Allowance for Loan Losses

(Dollars in thousands)

As of and for the year ended December 31,	2012	2011	2010	2009	2008	
Balance at the beginning of period	\$ 112,581	\$ 120,480	\$ 103,030	\$ 87,316	\$ 52,355	
Allowance of acquired banking offices	—	—	—	—	14,463	
Charge-offs:						
Real estate						
Commercial	13,014	13,227	8,980	5,156	995	
Construction	25,510	26,125	19,989	14,153	3,035	
Residential	4,879	6,199	3,511	1,086	325	
Agricultural	103	213	2,238	11	642	
Consumer	5,320	6,043	7,577	8,134	5,527	
Commercial	11,990	19,332	10,023	3,346	3,523	
Agricultural	120	142	21	92	648	
Total charge-offs	60,936	71,281	52,339	31,978	14,695	
Recoveries:						
Real estate						
Commercial	907	293	34	108	88	
Construction	2,022	1,641	213	7	1	
Residential	310	201	132	38	67	
Agricultural	2	—	—	—	—	
Consumer	1,945	1,739	2,053	1,850	1,404	
Commercial	2,905	1,344	436	328	211	
Agricultural	25	13	21	61	66	
Total recoveries	8,116	5,231	2,889	2,392	1,837	
Net charge-offs	52,820	66,050	49,450	29,586	12,858	
Provision for loan losses	40,750	58,151	66,900	45,300	33,356	
Balance at end of period	\$ 100,511	\$ 112,581	\$ 120,480	\$ 103,030	\$ 87,316	
Period end loans	\$ 4,223,912	\$ 4,186,549	\$ 4,367,909	\$ 4,528,004	\$ 4,772,813	
Average loans	4,176,439	4,275,128	4,482,218	4,660,189	4,527,987	
Net charge-offs to average loans	1.26	% 1.54	% 1.10	% 0.63	% 0.28	%
Allowance to period-end loans	2.38	% 2.69	% 2.76	% 2.28	% 1.83	%

The allowance for loan losses was \$101 million, or 2.38% of period-end loans, at December 31, 2012, compared to \$113 million, or 2.69% of period-end loans, at December 31, 2011, and \$120 million, or 2.76% of period-end loans, at December 31, 2010. Decreases in the allowance for loan losses as a percentage of total loans as of December 31, 2012, compared to December 31, 2011, were primarily due to decreases in specific reserves on impaired loans and lower general reserves reflective of decreases in past due, non-performing and internally risk classified loans. Decreases in the allowance for loan losses as a percentage of total loans as of December 31, 2011, compared to December 31, 2010, were due to decreases in specific reserves on impaired loans.

Net charge-offs in 2012 decreased \$13 million, or 20.0%, to \$53 million, or 1.26% of average loans, from \$66 million, or 1.54% of average loans in 2011. Approximately 53% of the loans charged-off in 2012 were related to sixteen borrowers. Net charge-offs in 2011 increased \$17 million to \$66 million, or 1.54% of average loans, from \$49 million, or 1.10% of average loans in 2010. Approximately 46% of loans charged-off during 2011 were related to one

consumer real estate, two land development and three commercial borrowers.

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Although we believe that we have established our allowance for loan losses in accordance with accounting principles generally accepted in the United States and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times during the five-year period ended December 31, 2012, future provisions will be subject to on-going evaluations of the risks in the loan portfolio. If the economy declines or asset quality deteriorates, material additional provisions could be required.

The allowance for loan losses is allocated to loan categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan portfolio. The following table provides a summary of the allocation of the allowance for loan losses for specific loan categories as of the dates indicated. The allocations presented should not be interpreted as an indication that charges to the allowance for loan losses will be incurred in these amounts or proportions, or that the portion of the allowance allocated to each loan category represents the total amount available for future losses that may occur within these categories. The unallocated portion of the allowance for loan losses and the total allowance are applicable to the entire loan portfolio.

Allocation of the Allowance for Loan Losses

(Dollars in thousands)

As of December 31,	2012		2011		2010		2009		2008	
	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans
Real estate	\$75,782	64.3 %	\$87,396	64.6 %	\$84,181	64.7 %	\$76,357	64.7 %	\$69,280	63.9 %
Consumer	7,141	15.1	8,594	14.7	9,332	14.8	6,220	14.9	5,092	14.0
Commercial	17,085	16.3	15,325	16.6	25,354	16.7	18,608	16.6	11,021	17.9
Agricultural	503	2.7	1,266	2.8	1,613	2.7	1,845	3.0	1,923	3.1
Other loans	—	—	—	—	—	0.1	—	—	—	0.1
Mortgage loans held for sale	—	1.6	—	1.3	—	1.0	—	0.8	—	1.0
Unallocated	—	N/A	—	N/A	—	N/A	—	N/A	—	N/A
Totals	\$100,511	100.0 %	\$112,581	100.0 %	\$120,480	100.0 %	\$103,030	100.0 %	\$87,316	100.0 %

The allowance for loan losses allocated to real estate loans decreased 13.3% to \$76 million as of December 31 2012, from \$87 million as of December 31, 2011, primarily due to the charge-off of \$40 million of non-performing real estate loans. The allowance for loan losses allocated to commercial loans decreased 39.6% to \$15 million as of December 31, 2011, from \$25 million as of December 31, 2010, primarily due to the charge-off of non-performing loans.

Investment Securities

We manage our investment portfolio to obtain the highest yield possible, while meeting our risk tolerance and liquidity guidelines and satisfying the pledging requirements for deposits of state and political subdivisions and securities sold under repurchase agreements. Our portfolio principally comprises U.S. government agency residential mortgage-backed securities and collateralized mortgage obligations, U.S. government agency securities and tax exempt securities. Federal funds sold and interest bearing deposits in bank are additional investments that are classified as cash equivalents rather than as investment securities. Investment securities classified as available-for-sale

are recorded at fair value, while investment securities classified as held-to-maturity are recorded at amortized cost. Unrealized gains or losses, net of the deferred tax effect, on available-for-sale securities are reported as increases or decreases in accumulated other comprehensive income or loss, a component of stockholders' equity.

Investment securities increased \$34 million, or 1.6%, to \$2,203 million as of December 31, 2012, from \$2,170 million as of December 31, 2011, and increased \$236 million, or 12.2%, to \$2,170 million as of December 31, 2011, from \$1,933 million as of December 31, 2010. During 2012 and 2011, excess liquidity was primarily invested into available-for-sale U.S. government agency residential mortgage-backed securities. The estimated duration of the Company's investment securities portfolio was 2.5 years as of December 31, 2012. The weighted average yield on investment securities decreased 31 basis points to 2.10% in 2012, from 2.41% in 2011, and 57 basis points to 2.41% in 2011, from 2.98% in 2010.

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As of December 31, 2012, investment securities with amortized costs and fair values of \$1,319 million and \$1,344 million, respectively, were pledged to secure public deposits and securities sold under repurchase agreements, as compared to \$1,280 million and \$1,311 million, respectively, as of December 31, 2011.

For additional information concerning securities sold under repurchase agreements, see “—Securities Sold Under Repurchase Agreements” included herein.

The following table sets forth the book value, percentage of total investment securities and weighted average yields on investment securities as of December 31, 2012. Weighted-average yields have been computed on a fully taxable-equivalent basis using a tax rate of 35%.

Securities Maturities and Yield

(Dollars in thousands)

	Book Value	% of Total Investment Securities	Weighted Average FTE Yield	
U.S. Government agency securities				
Maturing within one year	\$ 147,190	6.69	% 0.84	%
Maturing in one to five years	508,133	23.06	0.94	
Maturing in five to ten years	96,178	4.36	1.45	
Mark-to-market adjustments on securities available-for-sale	3,355	0.15	NA	
Total	754,856	34.26	0.92	
Mortgage-backed securities				
Maturing within one year	291,580	13.23	3.54	
Maturing in one to five years	534,563	24.26	1.53	
Maturing in five to ten years	255,132	11.58	2.40	
Maturing after ten years	133,641	6.06	2.57	
Mark-to-market adjustments on securities available-for-sale	25,486	1.16	NA	
Total	1,240,402	56.29	2.32	
Tax exempt securities				
Maturing within one year	4,657	0.21	5.57	
Maturing in one to five years	32,462	1.47	4.00	
Maturing in five to ten years	86,416	3.92	5.10	
Maturing after ten years	69,340	3.15	5.00	
Mark-to-market adjustments on securities available-for-sale	NA	NA	NA	
Total	192,875	8.75	4.89	
Corporate securities				
Maturing in one to five years	14,975	0.68	1.20	
Mark-to-market adjustments on securities available-for-sale	NA	NA	NA	
Total	14,975	0.68	1.20	
Other securities (1)				
No stated maturity	373	0.02	NA	
Mark-to-market adjustments on securities available-for-sale	NA	NA	NA	
Total	373	0.02	NA	
Total	\$2,203,481	100.00	% 1.93	%

(1) Equity investments in community development entities. Investment income is in the form of credits that reduce income tax expense.

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Maturities of U.S. government agency securities noted above reflect \$371 million of investment securities at their final maturities although they have call provisions within the next year. Based on current market interest rates, management expects approximately \$308 million of these securities will be called in 2013.

Mortgage-backed securities, and to a limited extent other securities, have uncertain cash flow characteristics that present additional interest rate risk in the form of prepayment or extension risk primarily caused by changes in market interest rates. This additional risk is generally rewarded in the form of higher yields. Maturities of mortgage-backed securities presented above have been adjusted to reflect shorter maturities based upon estimated prepayments of principal. As of December 31, 2012, the carrying value of our investments in non-agency mortgage-backed securities totaled \$551 thousand. All other mortgage-backed securities included in the table above were issued by U.S. government agencies and corporations. As of December 31, 2012, there were no significant concentrations of investments (greater than 10% of stockholders' equity) in any individual security issuer, except for U.S. government or agency-backed securities.

As of December 31, 2012, approximately 72% of our tax-exempt securities were general obligation securities, of which 48% were issued by political subdivisions or agencies within the states of Montana, Wyoming and South Dakota.

As of December 31, 2011, we had U.S. government agency securities with carrying values of \$1,138 million and a weighted average yield of 0.92%; mortgage-backed securities with carrying values of \$879 million and a weighted average yield of 2.99%; tax exempt securities with carrying values of \$153 million and a weighted average yield of 5.65%; and other securities with carrying values of \$162 thousand with no weighted average yield.

As of December 31, 2010, we had U.S. government agency securities with carrying values of \$953 million and a weighted average yield of 0.77%; mortgage-backed securities with carrying values of \$833 million and a weighted average yield of 3.52%; tax exempt securities with carrying values of \$147 million and a weighted average yield of 5.78%; and other securities with carrying values of \$218 thousand with no weighted average yield.

We evaluate our investment portfolio quarterly for other-than-temporary declines in the market value of individual investment securities. This evaluation includes monitoring credit ratings; market, industry and corporate news; volatility in market prices; and, determining whether the market value of a security has been below its cost for an extended period of time. As of December 31, 2012, we had investment securities with fair values of \$694 thousand that had been in a continuous loss position more than twelve months. Gross unrealized losses on these securities totaled \$9 thousand as of December 31, 2012, and were primarily attributable to changes in interest rates. No impairment losses were recorded during 2012, 2011 or 2010.

For additional information concerning investment securities, see "Notes to Consolidated Financial Statements — Investment Securities" included in Part IV, Item 15.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold for one day periods and interest bearing deposits in banks with original maturities of less than three months. Cash and cash equivalents increased \$329 million, or 69.6%, to \$801 million as of December 31, 2012, from \$472 million as of December 31, 2011, and decreased \$213 million, or 31.1%, to \$472 million as of December 31, 2011, from \$686 million as of December 31, 2010. Fluctuations in cash and cash equivalents occurred during the normal course of business and are not reflective of changes in business plan or strategy.

Deferred Tax Asset/Liability

Our net deferred tax asset decreased \$7 million, or 73.0%, to \$3 million as of December, 31, 2012, from \$10 million as of December 31, 2011. This decrease was primarily due to tax amortization of goodwill and core deposits intangibles and loan charge-offs, which are deductible currently for income tax purposes.

Net deferred tax asset decreased \$9 million, or 47.9%, to \$10 million as of December 31, 2011, from \$18 million as of December 31, 2010, primarily due to increases in net unrealized gains on available-for-sale investment securities and tax amortization of goodwill and core deposits intangibles.

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Other Assets

Other assets decreased \$5 million, or 7.7%, to \$63 million as of December 31, 2012, from \$68 million as of December 31, 2011, primarily due to reductions in prepaid FDIC insurance assessments. Other assets decreased \$14 million, or 16.8%, to \$68 million as of December 31, 2011, from \$82 million as of December 31, 2010. Approximately 50% of the decrease was due to reductions in prepaid FDIC insurance assessments. In addition, during second quarter 2011 we sold a condominium unit located inside one of our branch bank buildings, which had a carrying value of \$3 million.

Deposits

We emphasize developing relationships with our customers in order to increase our core deposit base, which is our primary funding source. Our deposits consist of non-interest bearing and interest bearing demand, savings, individual retirement and time deposit accounts.

The following table summarizes our deposits as of the dates indicated:

Deposits

(Dollars in thousands)

As of December 31,	2012	Percent	2011	Percent	2010	Percent	2009	Percent	2008	Percent
Non-interest bearing demand	\$1,495,309	24.0	%\$1,271,709	21.8%	\$1,063,869	18.0	%\$1,026,584	17.6%	\$985,155	19.0
Interest bearing:										
Demand	1,811,905	29.0	1,306,509	22.4	1,218,078	20.5	1,197,254	20.6	1,059,818	20.5
Savings	1,547,713	24.8	1,691,413	29.0	1,718,521	29.0	1,362,410	23.4	1,198,783	23.2
Time, \$100 or more	594,712	9.5	681,047	11.7	908,044	15.3	996,839	17.1	821,437	15.9
Time, other	790,772	12.7	876,293	15.1	1,017,201	17.2	1,240,969	21.3	1,109,066	21.4
Total interest bearing	4,745,102	76.0	4,555,262	78.2	4,861,844	82.0	4,797,472	82.4	4,189,104	81.0
Total deposits	\$6,240,411	100.0%	\$5,826,971	100.0%	\$5,925,713	100.0%	\$5,824,056	100.0%	\$5,174,259	100.0

Total deposits increased \$413 million, or 7.1%, to \$6,240 million as of December 31, 2012, from \$5,827 million as of December 31, 2011, with a shift in the mix of deposits away from higher-costing time deposits into lower-costing savings, interest bearing demand and non-interest bearing demand deposits. Total deposits decreased \$99 million, or 1.7%, to \$5,827 million as of December 31, 2011, from \$5,926 million as of December 31, 2010. During 2011, the mix of deposits continued to shift from higher-costing time deposits to lower-costing interest bearing and non-interest bearing demand deposits.

Non-Interest Bearing Demand. Non-interest bearing demand deposits increased \$224 million, or 17.6%, to \$1,495 million as of December 31, 2012, from \$1,272 million as of December 31, 2011, and increased \$208 million, or 19.5%, to \$1,272 million as of December 31, 2011 from \$1,064 million as of December 31, 2010. Management attributes these increases to customer liquidity combined with the current low interest rates offered on alternative interest earning deposit products.

Interest Bearing Demand. Interest bearing demand deposits increased \$505 million, or 38.7%, to \$1,812 million as of December 31, 2012, from \$1,307 million as of December 31, 2011. As a result of a regulatory change allowing businesses to receive interest on checking accounts, during first quarter 2012 we discontinued our savings sweep

product, which resulted in a shift of approximately \$300 million from savings deposits into interest bearing demand deposits during first quarter 2012. Non-interest bearing demand deposits increased \$88 million, or 7.3%, to \$1,307 million as of December 31, 2011, from \$1,218 million as of December 31, 2010.

Savings Deposits. Savings deposits decreased \$144 million, or 8.5%, to \$1,548 million as of December 31, 2012, from \$1,691 million as of December 31, 2011, primarily due to the discontinuation of our savings sweep product during first quarter 2012, as described above. Savings deposits decreased \$27 million, or 1.6%, to \$1,691 million as of December 31, 2011, from \$1,719 million as of December 31, 2010.

Time deposits of \$100,000 or more. Time deposits of \$100,000 or more decreased \$86 million, or 12.7%, to \$595 million as of December 31, 2012, from \$681 million as of December 31, 2011, and decreased \$227 million, or 25.0%, to \$681 million as of December 31, 2011, from \$908 million as of December 31, 2010. These decreases occurred primarily in time deposits with maturities of less than 12 months. As of December 31, 2012 and 2011, we had no certificates of deposit issued in brokered transactions.

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The following table presents the maturities of time deposits of \$100,000 or more as of December 31, 2012.

Maturities of Time Deposits of \$100,000 or More

(Dollars in thousands)

Maturing in 3 months or less	\$143,666
Maturing in 3-6 months	103,135
Maturing in 6-12 months	190,796
Maturing in over 12 months	157,115
Total time deposits of \$100,000 or more	\$594,712

Other time deposits. Other time deposits decreased \$86 million, or 9.8%, to \$791 million as of December 31, 2012, from \$876 million as of December 31, 2011, and decreased \$141 million, or 13.9%, to \$876 million as of December 31, 2011, from \$1,017 million as of December 31, 2010. We had Certificate of Deposit Account Registry Service, or CDARS, deposits of \$72 million as of December 31, 2012, and \$98 million as of December 31, 2011.

For additional information concerning customer deposits, including the use of repurchase agreements, see “Business—Community Banking—Deposit Products,” included in Part I, Item 1 and “Notes to Consolidated Financial Statements—Deposits,” included in Part IV, Item 15 of this report.

Securities Sold Under Repurchase Agreements

Under repurchase agreements with commercial and municipal depositors, customer deposit balances are invested in short-term U.S. government agency securities overnight and are then repurchased the following day. All outstanding repurchase agreements are due in one day. Repurchase agreement balances decreased \$10 million, or 2.0%, to \$506 million as of December 31, 2012, from \$516 million as of December 31, 2011, and decreased \$104 million, or 16.8%, to \$516 million as of December 31, 2011, from \$620 million as of December 31, 2010. Fluctuations in repurchase agreement balances correspond with fluctuations in the liquidity of our customers.

The following table sets forth certain information regarding securities sold under repurchase agreements as of the dates indicated:

Securities Sold Under Repurchase Agreements

(Dollars in thousands)

As of and for the year ended December 31,	2012	2011	2010	
Securities sold under repurchase agreements:				
Balance at period end	\$505,785	\$516,243	\$620,154	
Average balance	501,192	500,882	480,276	
Maximum amount outstanding at any month-end	541,032	560,515	620,154	
Average interest rate:				
During the year	0.12	%0.14	%0.18	%
At period end	0.09	0.12	0.14	

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Other Borrowed Funds

Other borrowed funds increased \$25 thousand, or 357.1%, to \$32 thousand as of December 31 2012, from \$7 thousand as of December 31, 2011, primarily due to fluctuation in the timing of tax deposit by customers and their subsequent withdrawal by the federal government. Other borrowed funds decreased \$5 million or 99.9% to \$7 thousand as of December 31, 2011, from \$5 million as of December 31, 2010, primarily due to scheduled repayments and maturities of short-term borrowings from the FHLB. For additional information on other borrowed funds, see “Notes to Consolidated Financial Statements—Long-Term Debt and Other Borrowed Funds,” included in Part IV, Item 15 of this report.

Preferred Stock Pending Redemption

On December 18, 2012, we provided notice to preferred stockholders of our intent to redeem our perpetual preferred stock on January 18, 2013. Upon notice to holders of the redemption, the preferred stock was reclassified from stockholder's equity to a liability in accordance with generally accepted accounting principles. The preferred stock was redeemed on January 18, 2013 at an aggregate redemption price of \$50 million, which represented par value of the preferred stock plus unpaid and accrued dividends to the redemption date.

Subordinated Debentures Held by Subsidiary Trusts

Subordinated debentures held by subsidiary trusts decreased \$41 million, or 33.3%, to \$82 million as of December 31, 2012, from \$124 million as of December 31, 2011. During second quarter 2012, we redeemed \$41 million of junior subordinated deferrable interest debentures, or subordinated debentures, maturing March 26, 2033, and bearing a cumulative floating interest rate equal to LIBOR plus 3.15% per annum. Redemption of the subordinated debentures caused a mandatory redemption of \$40 million of floating rate mandatorily redeemable capital trust preferred securities, or trust preferred securities, and all common securities issued by First Interstate Statutory Trust I, a wholly-owned unconsolidated business trust sponsored by us. A loss of \$428 thousand on the early extinguishment of the junior subordinated debentures, comprised solely of unamortized debt issuance costs, was included in other expense in the accompanying consolidated statement of income. Subordinated debentures held by subsidiary trusts were \$124 million as of December 31, 2011 and 2010. For additional information regarding the Subordinated Debentures, see “Notes to Consolidated Financial Statements—Subordinated Debentures Held by Subsidiary Trusts,” included in Part IV, Item 15 of this report.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses increased \$6 million, or 14.1%, to \$48 million as of December 31, 2012, from \$42 million as of December 31 2011, and increased \$3 million, or 8.6% to \$42 million as of December 31, 2011, from \$39 million as of December 31, 2010. These increases are primarily due to the timing and amounts of corporate tax payments.

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Contractual Obligations

Contractual obligations as of December 31, 2012 are summarized in the following table.

Contractual Obligations

(Dollars in thousands)

	Payments Due				Total
	Within One Year	One Year to Three Years	Three Years to Five Years	After Five Years	
Deposits without a stated maturity	\$4,854,927	\$—	\$—	\$—	\$4,854,927
Time deposits	999,439	255,273	130,769	3	1,385,484
Securities sold under repurchase agreements	505,785	—	—	—	505,785
Other borrowed funds (1)	32	—	—	—	32
Long-term debt obligations (2)	200	225	—	35,000	35,425
Preferred stock pending redemption	50,000	—	—	—	50,000
Capital lease obligations	44	109	136	1,446	1,735
Operating lease obligations	3,221	5,525	1,800	4,170	14,716
Purchase obligations (3)	197	—	—	—	197
Subordinated debentures held by subsidiary trusts (4)	—	—	—	82,477	82,477
Total contractual obligations	\$6,413,845	\$261,132	\$132,705	\$123,096	\$6,930,778

Included in other borrowed funds are tax deposits made by customers pending subsequent withdrawal by the (1) federal government. For additional information concerning other borrowed funds, see “Notes to Consolidated Financial Statements — Long Term Debt and Other Borrowed Funds” included in Part IV, Item 15.

Long-term debt obligations consists of various notes payable to FHLB at various rates with maturities through October 31, 2015; a fixed rate subordinated term loan bearing interest of 6.81% and maturing January 9, 2018; and (2) a variable rate subordinated term loan maturing February 28, 2018. For additional information concerning long-term debt, see “Notes to Consolidated Financial Statements — Long Term Debt and Other Borrowed Funds” included in Part IV, Item 15.

(3) Purchase obligations relate to obligations under construction contracts to build or renovate banking offices.

The subordinated debentures are unsecured, with various interest rates and maturities from December 15, 2037 through April 1, 2038. Interest distributions are payable quarterly; however, we may defer interest payments at any (4) time for a period not exceeding 20 consecutive quarters. For additional information concerning the subordinated debentures, see “Notes to Consolidated Financial Statements — Subordinated Debentures Held by Subsidiary Trusts” included in Part IV, Item 15.

We also have obligations under a postretirement healthcare benefit plan. These obligations represent actuarially determined future benefit payments to eligible plan participants. See “Notes to Consolidated Financial Statements — Employee Benefit Plans” included in Part IV, Item 15.

Off-Balance Sheet Arrangements

We have entered into various arrangements not reflected on the consolidated balance sheet that have or are reasonably likely to have a current or future effect on our financial condition, results of operations or liquidity. These include guarantees, commitments to extend credit and standby letters of credit.

We guarantee the distributions and payments for redemption or liquidation of capital trust preferred securities issued by our wholly-owned subsidiary business trusts to the extent of funds held by the trusts. Although the guarantees are not separately recorded, the obligations underlying the guarantees are fully reflected on our consolidated balance sheets as subordinated debentures held by subsidiary trusts. The subordinated debentures currently qualify as tier 1 capital under the Federal Reserve capital adequacy guidelines. For additional information regarding the subordinated debentures, see “Notes to Consolidated Financial Statements — Subordinated Debentures Held by Subsidiary Trusts” included in Part IV, Item 15.

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We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. For additional information regarding our off-balance sheet arrangements, see “Notes to Consolidated Financial Statements — Financial Instruments with Off-Balance Sheet Risk” included in Part IV, Item 15.

Capital Resources and Liquidity Management

Capital Resources

Stockholders’ equity is influenced primarily by earnings, dividends, sales and redemptions of common or preferred stock and changes in the unrealized holding gains or losses, net of taxes, on available-for-sale investment securities. Stockholders’ equity decreased \$20 million, or 2.6%, to \$751 million as of December 31, 2012, from \$771 million as of December 31, 2011. On December 18, 2012, we provided notice to preferred stockholders of our intent to redeem \$50 million of perpetual preferred stock. Upon notice to holders of the planned redemption, we reclassified the preferred stock from stockholder's equity to a liability. Exclusive of this reclassification, stockholders’ equity would have increased \$30 million, or 3.9%, to \$801 million as of December 31, 2012 from \$771 million as of December 31, 2011, due primarily to the retention of earnings. We paid aggregate cash dividends of \$26.2 million to common shareholders and \$3.4 million to preferred shareholders during 2012.

Stockholders’ equity increased \$34 million, or 4.6%, to \$771 million as of December 31, 2011 from \$737 million as of December 31, 2010, due primarily to the retention of earnings and increases in net unrealized gains on available-for-sale investment securities. We paid aggregate cash dividends of \$19.2 million to common shareholders and \$3.4 million to preferred shareholders during 2011.

On March 5, 2010, our shareholders approved proposals to recapitalize our existing common stock. The recapitalization included a redesignation of existing common stock as Class B common stock with five votes per share, convertible into Class A common stock on a share for share basis; a four-for-one stock split of the Class B common stock; an increase in the authorized number of Class B common shares from 20,000,000 to 100,000,000; and, the creation of a new class of common stock designated as Class A common stock, with one vote per share, with 100,000,000 shares authorized.

On March 29, 2010, we concluded an IPO of 10,000,000 shares of Class A common stock, and an additional 1,500,000 shares of Class A common stock pursuant to the full exercise of the underwriters’ option to purchase Class A common shares in the offering. We received net proceeds of \$153 million from the sale of the shares, after deducting underwriting discounts, commissions and other offering expenses of \$14 million

Pursuant to the FDICIA, the Federal Reserve and FDIC have adopted regulations setting forth a five-tier system for measuring the capital adequacy of the financial institutions they supervise. At December 31, 2012 and 2011, our Bank had capital levels that, in all cases, exceeded the well capitalized guidelines. For additional information concerning our capital levels, see “Notes to Consolidated Financial Statements—Regulatory Capital” contained in Part IV, Item 15 of this report.

Liquidity

Liquidity measures our ability to meet current and future cash flow needs on a timely basis and at a reasonable cost. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders. Our liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid

assets include cash, interest bearing deposits in banks, federal funds sold, available-for-sale investment securities and maturing or prepaying balances in our held-to-maturity investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and borrowings. Other sources of liquidity include the sale of loans, the ability to acquire additional national market, non-core deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, additional borrowings through the Federal Reserve's discount window and the issuance of preferred or common securities. We do not engage in derivatives or hedging activities to support our liquidity position.

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Our short-term and long-term liquidity requirements are primarily to fund on-going operations, including payment of interest on deposits and debt, extensions of credit to borrowers, capital expenditures and shareholder dividends. These liquidity requirements are met primarily through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits. For additional information regarding our operating, investing and financing cash flows, see “Consolidated Financial Statements—Consolidated Statements of Cash Flows,” included in Part IV, Item 15 of this report.

As a holding company, we are a corporation separate and apart from our subsidiary Bank and, therefore, we provide for our own liquidity. Our main sources of funding include management fees and dividends declared and paid by our subsidiaries and access to capital markets. There are statutory, regulatory and debt covenant limitations that affect the ability of our Bank to pay dividends to us. Management believes that such limitations will not impact our ability to meet our ongoing short-term cash obligations. For additional information regarding dividend restrictions, see “—Financial Condition—Capital Resources and Liquidity Management” above and “Business—Regulation and Supervision—Restrictions on Transfers of Funds to Us and the Bank” and “Risk Factors—Our Bank’s ability to pay dividends to us is subject to regulatory limitations, which, to the extent we are not able to receive such dividends, may impair our ability to grow, pay dividends, cover operating expenses and meet debt service requirements.”

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is interest rate risk. Our business and the composition of our balance sheet consists of investments in interest earning assets (principally loans and investment securities) which are primarily funded by interest bearing liabilities (deposits and indebtedness). Such financial instruments have varying levels of sensitivity to changes in market interest rates. Interest rate risk results when, due to different maturity dates and repricing intervals, interest rate indices for interest earning assets decrease relative to interest bearing liabilities, thereby creating a risk of decreased net earnings and cash flow.

Although we characterize some of our interest-sensitive assets as securities available-for-sale, such securities are not purchased with a view to sell in the near term. Rather, such securities may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk. See “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies” included in Part IV, Item 15 of this report.

Asset Liability Management

The goal of asset liability management is the prudent control of market risk, liquidity and capital. Asset liability management is governed by policies, goals and objectives adopted and reviewed by the Bank’s board of directors. Development of asset liability management strategies to is the responsibility of the Asset Liability Committee, or ALCO, which is composed of members of senior management.

Interest Rate Risk

Interest rate risk is the risk of loss of future earnings or long-term value due to changes in interest rates. Our primary source of earnings is the net interest margin, which is affected by changes in interest rates, the relationship between rates on interest bearing assets and liabilities, the impact of interest rate fluctuations on asset prepayments and the mix of interest bearing assets and liabilities.

The ability to optimize the net interest margin is largely dependent upon the achievement of an interest rate spread that can be managed during periods of fluctuating interest rates. Interest sensitivity is a measure of the extent to which net interest income will be affected by market interest rates over a period of time. Interest rate sensitivity is related to the

difference between amounts of interest earning assets and interest bearing liabilities which either reprice or mature within a given period of time. The difference is known as interest rate sensitivity gap.

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The following table shows interest rate sensitivity gaps and the earnings sensitivity ratio for different intervals as of December 31, 2012. The information presented in the table is based on our mix of interest earning assets and interest bearing liabilities and historical experience regarding their interest rate sensitivity.

Interest Rate Sensitivity Gaps

(Dollars in thousands)

	Projected Maturity or Repricing				Total	
	Three Months or Less	Three Months to One Year	One Year to Five Years	After Five Years		
Interest earning assets:						
Loans (1)	\$1,498,496	\$836,174	\$1,646,031	\$135,412	\$4,116,113	
Investment securities (2)	225,531	607,151	888,563	482,236	2,203,481	
Interest bearing deposits in banks	622,624	—	—	—	622,624	
Federal funds sold	730	—	—	—	730	
Total interest earning assets	\$2,347,381	\$1,443,325	\$2,534,594	\$617,648	\$6,942,948	
Interest bearing liabilities:						
Interest bearing demand accounts (3)	\$135,893	\$407,679	\$1,268,333	\$—	\$1,811,905	
Savings deposits (3)	1,212,634	81,506	253,573	—	1,547,713	
Time deposits, \$100 or more	143,666	293,931	157,115	—	594,712	
Other time deposits	222,444	339,400	228,926	2	790,772	
Securities sold under repurchase agreements	505,785	—	—	—	505,785	
Other borrowed funds	32	—	—	—	32	
Preferred stock pending redemption	50,000	—	—	—	50,000	
Long-term debt	15,011	233	470	21,446	37,160	
Subordinated debentures held by subsidiary trusts	72,167	10,310	—	—	82,477	
Total interest bearing liabilities	\$2,357,632	\$1,133,059	\$1,908,417	\$21,448	\$5,420,556	
Rate gap	\$(10,251)	\$310,266	\$626,177	\$596,200	\$1,522,392	
Cumulative rate gap	(10,251)	300,015	926,192	1,522,392		
Cumulative rate gap as a percentage of total interest earning assets	-0.15	%4.32	%13.34	%21.93	%21.93	%

Does not include non-accrual loans of \$108 million. Variable rate loans are included in the three months or less (1) category in the above table although certain of these loans have reached interest rate floors and may not immediately reprice.

(2) Adjusted to reflect: (a) expected shorter maturities based upon our historical experience of early prepayments of principal, and (b) the redemption of callable securities on their next call date.

(3) Includes savings deposits paying interest at market rates in the three month or less category. All other deposit categories, while technically subject to immediate withdrawal, actually display sensitivity characteristics that generally fall within one to five years. Their allocation is presented based on that historical analysis. If these deposits were included in the three month or less category, the above table would reflect a negative three month gap of \$2.0 million, a negative cumulative one year gap of \$1.2 million and a positive cumulative one to five year gap of \$926 million.

Net Interest Income Sensitivity

We believe net interest income sensitivity provides the best perspective of how day-to-day decisions affect our interest rate risk profile. We monitor net interest margin sensitivity by utilizing an income simulation model to subject twelve month net interest income to various rate movements. Simulations modeled quarterly include scenarios where market rates change suddenly up or down in a parallel manner and scenarios where market rates gradually change up or down at nonparallel rates resulting in a change in the slope of the yield curve. Estimates produced by our income simulation model are based on numerous assumptions including, but not limited to, the nature and timing of changes in interest rates, prepayments of loans and investment securities, volume of loans originated, level and composition of deposits, ability of borrowers to repay adjustable or variable

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rate loans and reinvestment opportunities for cash flows. Given these various assumptions, the actual effect of interest rate changes on our net interest margin may be materially different than estimated.

We target a mix of interest earning assets and interest bearing liabilities such that no more than 5% of the net interest margin will be at risk over a one-year period should short-term interest rates shift up or down 2%. As of December 31, 2012, our income simulation model predicted net interest income would increase \$2.6 million, or 1.1%, assuming a 0.5% increase in short-term and long-term interest rates during each of the next four consecutive quarters. This scenario predicts that our interest earning assets reprice slightly faster than our funding costs. We have not engaged in derivatives or hedging activities to manage our interest rate risk.

We did not simulate a decrease in interest rates due to the extremely low rate environment as of December 31, 2012. Prime rate has historically been set at a rate of 300 basis points over the targeted federal funds rate, which is currently set between 0 and 25 basis points. Our income simulation model has an assumption that prime will continue to be set at a rate of 300 basis points over the targeted federal funds rate. Additionally, rates that are currently below 2% are modeled not to fall below 0% with an overall decrease of 2% in interest rates. Although we did not simulate a decrease in interest rates due to the extremely low rate environment as of December 31, 2012, a further decline in interest rates would result in an acceleration of the compression of our net interest margin.

The preceding interest rate sensitivity analysis does not represent a forecast and should not be relied upon as being indicative of expected operating results. In addition, if the actual prime rate falls below a 300 basis point spread to targeted federal funds rates, we could experience a continued decrease in net interest income as a result of falling yields on earning assets tied to prime rate.

Recent Accounting Pronouncements

The expected impact of accounting standards recently issued but not yet adopted are discussed in “Notes to Consolidated Financial Statements—Authoritative Accounting Guidance” included in Part IV, Item 15 of this report.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements of First Interstate BancSystem, Inc. and subsidiaries are contained in Part IV, Item 15 of this report and are incorporated herein by reference.

Report of McGladrey LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets — December 31, 2012 and 2011

Consolidated Statements of Income — Years Ended December 31, 2012, 2011 and 2010

Consolidated Statements of Comprehensive Income — Years Ended December 31, 2012, 2011 and 2010

Consolidated Statements of Stockholders' Equity — Years Ended December 31, 2012, 2011 and 2010

Consolidated Statements of Cash Flows — Years Ended December 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

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

There have been no disagreements with accountants on accounting and financial disclosure.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. As of December 31, 2012, our management evaluated, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of December 31, 2012, were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods required by the SEC's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our system of internal control over financial reporting within the meaning of Rules 13a-15(f) and 15d-15(f) of the Exchange Act is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of our published financial statements in accordance with U.S. generally accepted accounting principles. Our management, including the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of our system of internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on our assessment, we believe that, as of December 31, 2012, our system of internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

McGladrey LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2012. The report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2012, is included below.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
First Interstate BancSystem, Inc.

We have audited First Interstate BancSystem Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. First Interstate BancSystem, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered 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 (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) 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 (c) 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, First Interstate BancSystem, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 28, 2013 expressed an unqualified opinion.

/s/ MCGLADREY LLP

Des Moines, Iowa

February 28, 2013

Item 9B. Other Information

There were no items required to be disclosed in a report on Form 8-K during the fourth quarter of 2012 that were not reported.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information concerning "Directors, Executive Officers and Corporate Governance" is set forth under the heading "Directors and Executive Officers" in our Proxy Statement relating to our 2013 annual meeting of shareholders and is herein incorporated by reference.

Information concerning "Compliance With Section 16(a) of the Securities Exchange Act of 1934" is set forth under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement relating to our 2013 annual meeting of shareholders and is herein incorporated by reference.

Item 11. Executive Compensation

Information concerning "Executive Compensation" is set forth under the headings "Compensation of Executive Officers Compensation Discussion and Analysis" and "Compensation of Executive Officers and Directors" in our Proxy Statement relating to our 2013 annual meeting of shareholders and is herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" is set forth under the heading "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans" in our Proxy Statement relating to our 2013 annual meeting of shareholders and is herein incorporated by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information concerning "Certain Relationships and Related Transactions and Director Independence" is set forth under the headings "Directors and Executive Officers" and "Certain Relationships and Related Transactions" in our Proxy Statement relating to our 2013 annual meeting of shareholders and is herein incorporated by reference. In addition, see "Notes to Consolidated Financial Statements — Related Party Transactions" included in Part IV, Item 15.

Item 14. Principal Accountant Fees and Services

Information concerning “Principal Accountant Fees and Services” is set forth under the heading “Directors and Executive Officers — Principal Accounting Fees and Services” in our Proxy Statement relating to our 2013 annual meeting of shareholders and is herein incorporated by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Our audited consolidated financial statements follow.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
First Interstate BancSystem, Inc.

We have audited the accompanying consolidated balance sheets of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Interstate BancSystem, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2013 expressed an unqualified opinion on the effectiveness of First Interstate BancSystem Inc. and subsidiaries' internal control over financial reporting.

/s/ MCGLADREY LLP
Des Moines, Iowa
February 28, 2013

Table of ContentsFIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

December 31,	2012	2011
Assets		
Cash and due from banks	\$ 177,978	\$ 142,502
Federal funds sold	730	309
Interest bearing deposits in banks	622,624	329,636
Total cash and cash equivalents	801,332	472,447
Investment securities:		
Available-for-sale	1,995,258	2,016,864
Held-to-maturity (estimated fair values of \$218,933 and \$161,877 at December 31, 2012 and 2011, respectively)	208,223	152,781
Total investment securities	2,203,481	2,169,645
Loans held for investment	4,157,470	4,133,028
Mortgage loans held for sale	66,442	53,521
Total loans	4,223,912	4,186,549
Less allowance for loan losses	100,511	112,581
Net loans	4,123,401	4,073,968
Premises and equipment, net of accumulated depreciation	187,565	184,771
Goodwill	183,673	183,673
Company-owned life insurance	76,729	74,880
Other real estate owned ("OREO")	32,571	37,452
Accrued interest receivable	28,869	31,974
Mortgage servicing rights, net of accumulated amortization and impairment reserve	12,653	11,555
Deferred tax asset, net	2,597	9,628
Core deposit intangibles, net of accumulated amortization	5,937	7,357
Other assets	62,953	68,177
Total assets	\$ 7,721,761	\$ 7,325,527
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	\$ 1,495,309	\$ 1,271,709
Interest bearing	4,745,102	4,555,262
Total deposits	6,240,411	5,826,971
Securities sold under repurchase agreements	505,785	516,243
Accounts payable and accrued expenses	48,208	42,248
Accrued interest payable	6,502	8,123
Long-term debt	37,160	37,200
Other borrowed funds	32	7
Preferred stock pending redemption	50,000	—
Subordinated debentures held by subsidiary trusts	82,477	123,715
Total liabilities	6,970,575	6,554,507
Stockholders' equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; issued and outstanding 5,000 shares as of December 31, 2012 and 2011	—	50,000
Common stock	271,335	266,842
Retained earnings	463,860	435,144
Accumulated other comprehensive income, net	15,991	19,034

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Total stockholders' equity	751,186	771,020
Total liabilities and stockholders' equity	\$7,721,761	\$7,325,527

See accompanying notes to consolidated financial statements.

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Table of ContentsFIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

Year Ended December 31,	2012	2011	2010
Interest income:			
Interest and fees on loans	\$230,882	\$245,767	\$266,472
Interest and dividends on investment securities:			
Taxable	36,847	41,304	42,338
Exempt from federal taxes	4,923	4,749	4,621
Interest on deposits in banks	1,235	1,050	1,093
Interest on federal funds sold	13	13	22
Total interest income	273,900	292,883	314,546
Interest expense:			
Interest on deposits	22,306	33,533	53,949
Interest on securities sold under repurchase agreements	579	695	879
Interest on other borrowed funds	—	—	3
Interest on long-term debt	1,981	1,975	2,433
Interest in preferred stock pending redemption	131	—	—
Interest on subordinated debentures held by subsidiary trusts	5,117	5,828	5,843
Total interest expense	30,114	42,031	63,107
Net interest income	243,786	250,852	251,439
Provision for loan losses	40,750	58,151	66,900
Net interest income after provision for loan losses	203,036	192,701	184,539
Non-interest income:			
Income from the origination and sale of loans	41,790	21,153	22,868
Other service charges, commissions and fees	34,226	31,689	29,494
Service charges on deposit accounts	17,412	17,647	18,181
Wealth management revenues	14,314	13,575	12,387
Investment securities gains, net	348	1,544	170
Other income	6,771	6,264	7,811
Total non-interest income	114,861	91,872	90,911
Non-interest expense:			
Salaries and wages	89,833	83,560	83,373
Employee benefits	29,345	27,792	29,294
Occupancy, net	15,786	16,223	16,251
Furniture and equipment	12,859	12,562	13,434
OREO expense, net of income	9,400	8,652	7,670
Outsourced technology services	8,826	8,933	9,477
FDIC insurance premiums	6,470	7,333	10,044
Professional fees	4,044	3,676	3,245
Mortgage servicing rights amortization	3,501	3,225	4,615
Mortgage servicing rights impairment (recovery)	(771)	1,275	(787)
Core deposit intangibles amortization	1,420	1,446	1,748
Other expenses	48,922	43,735	42,640
Total non-interest expense	229,635	218,412	221,004
Income before income tax expense	88,262	66,161	54,446
Income tax expense	30,038	21,615	17,090
Net income	58,224	44,546	37,356

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Preferred stock dividends	3,300	3,422	3,422
Net income available to common shareholders	\$54,924	\$41,124	\$33,934
Basic earnings per common share	\$1.28	\$0.96	\$0.85
Diluted earnings per common share	1.27	0.96	0.85
See accompanying notes to consolidated financial statements.			

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Table of ContentsFIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

Year ended December 31,	2012	2011	2010
Net income	\$58,224	\$44,546	\$37,356
Other comprehensive income (loss) before tax:			
Investment securities available-for-sale:			
Change in net unrealized gains (losses) during the period	(4,648)	17,168	(8,438)
Reclassification adjustment for net gains included in income	(348)	(1,544)	(170)
Unamortized premium on available-for-sale securities transferred into held-to-maturity	56	389	722
Defined benefit post-retirement benefit plans:			
Change in the net actuarial loss	(77)	135	(940)
Other comprehensive income (loss), before tax	(5,017)	16,148	(8,826)
Deferred tax benefit (expense) related to other comprehensive income	1,974	(6,489)	3,126
Other comprehensive income (loss), net of tax	(3,043)	9,659	(5,700)
Comprehensive income	\$55,181	\$54,205	\$31,656

See accompanying notes to consolidated financial statements.

Table of ContentsFIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share and per share data)

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2009	\$ 50,000	\$ 112,135	\$ 397,224	\$ 15,075	\$ 574,434
Comprehensive income:					
Net income	—	—	37,356	—	37,356
Other comprehensive loss, net of tax	—	—	—	(5,700)	(5,700)
Common stock transactions:					
246,596 common shares purchased and retired	—	(3,699)	—	—	(3,699)
11,506,503 common shares issued	—	153,257	—	—	153,257
117,140 non-vested common shares issued	—	—	—	—	—
18,821 non-vested common shares forfeited or canceled	—	—	—	—	—
Non-vested liability awards vesting during period	—	59	—	—	59
92,880 stock options exercised, net of 111,792 shares tendered in payment of option price and income tax withholding amounts	—	649	—	—	649
Tax benefit of stock-based compensation	—	239	—	—	239
Stock-based compensation expense	—	1,534	—	—	1,534
Cash dividends declared:					
Common (\$0.45 per share)	—	—	(17,905)	—	(17,905)
Preferred (6.75% per share)	—	—	(3,422)	—	(3,422)
Balance at December 31, 2010	50,000	264,174	413,253	9,375	736,802
Comprehensive income:					
Net income	—	—	44,546	—	44,546
Other comprehensive income, net of tax	—	—	—	9,659	9,659
Common stock transactions:					
17,926 common shares purchased and retired	—	(248)	—	—	(248)
15,440 common shares issued	—	205	—	—	205
130,904 non-vested common shares issued	—	—	—	—	—
27,963 non-vested common shares forfeited or canceled	—	—	—	—	—
83,025 stock options exercised, net of 174,583 shares tendered in payment of option price and income tax withholding amounts	—	216	—	—	216
Tax benefit of stock-based compensation	—	385	—	—	385
Non-vested liability awards vesting during period	—	204	—	—	204
Stock-based compensation expense	—	1,906	—	—	1,906
Cash dividends declared:					
Common (\$0.45 per share)	—	—	(19,233)	—	(19,233)
Preferred (6.75% per share)	—	—	(3,422)	—	(3,422)
Balance at December 31, 2011	\$ 50,000	\$ 266,842	\$ 435,144	\$ 19,034	\$ 771,020

Table of ContentsFIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

(In thousands, except share and per share data)

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2011	\$50,000	\$266,842	\$435,144	\$19,034	\$771,020
Comprehensive income:					
Net income	—	—	58,224	—	58,224
Other comprehensive loss, net of tax	—	—	—	(3,043)	(3,043)
Common stock transactions:					
18,351 common shares purchased and retired	—	(263)	—	—	(263)
23,991 common shares issued	—	299	—	—	299
122,912 non-vested common shares issued	—	—	—	—	—
15,232 non-vested common shares forfeited or canceled	—	—	—	—	—
192,829 stock options exercised, net of 183,805 shares tendered in payment of option price and income tax withholding amounts	—	1,612	—	—	1,612
Tax benefit of stock-based compensation	—	360	—	—	360
Stock-based compensation expense	—	2,485	—	—	2,485
Preferred stock transactions:					
5,000 preferred shares called for redemption	(50,000)	—	—	—	(50,000)
Cash dividends declared:					
Common (\$0.61 per share)	—	—	(26,208)	—	(26,208)
Preferred (6.75% per share)	—	—	(3,300)	—	(3,300)
Balance at December 31, 2012	\$—	\$271,335	\$463,860	\$15,991	\$751,186

See accompanying notes to consolidated financial statements.

Table of ContentsFIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Year Ended December 31,	2012	2011	2010
Cash flows from operating activities:			
Net income	\$58,224	\$44,546	\$37,356
Adjustments to reconcile net income from operations to net cash provided by operating activities:			
Provision for loan losses	40,750	58,151	66,900
Net loss (gain) on disposal of property and equipment	(424)	28	672
Depreciation and amortization	17,112	17,368	20,136
Net premium amortization on investment securities	11,700	10,353	6,762
Net gain on investment securities transactions	(348)	(1,544)	(170)
Net gain on sales of mortgage loans held for sale	(29,606)	(14,443)	(15,321)
Net gain on sales of student loan portfolio	—	—	(374)
Net (gain) loss on sale of mortgage servicing rights	(19)	—	1,525
Net gain on sale of OREO	(1,041)	(552)	(708)
Write-down of OREO	6,724	7,464	6,724
Loss on early extinguishment of debt	428	—	306
Mortgage servicing rights impairment (recovery)	(771)	1,275	(787)
Deferred income tax expense (benefit)	8,762	2,405	(17,257)
Net increase in cash surrender value of company-owned life insurance policies	(1,849)	(1,824)	(1,682)
Stock-based compensation expense	2,485	2,111	1,764
Tax benefits from stock-based compensation	360	204	239
Excess tax benefits from stock-based compensation	(273)	(124)	(225)
Originations of loans held for sale, net	12,122	4,466	1,121
Changes in operating assets and liabilities:			
Decrease in accrued interest receivable	3,105	1,654	3,495
Decrease in other assets	4,089	13,039	8,158
Decrease in accrued interest payable	(1,621)	(5,055)	(4,407)
Increase (decrease) in accounts payable and accrued expenses	5,913	3,579	(4,969)
Net cash provided by operating activities	135,822	143,101	109,258
Cash flows from investing activities:			
Purchases of investment securities:			
Held-to-maturity	(68,305)	(18,846)	(33,118)
Available-for-sale	(1,246,068)	(1,166,364)	(1,317,938)
Proceeds from maturities, paydowns and calls of investment securities:			
Held-to-maturity	12,192	12,682	15,134
Available-for-sale	1,252,266	943,490	833,910
Proceeds from sales of mortgage servicing rights	907	596	2,480
Extensions of credit to customers, net of repayments	(128,919)	90,548	71,762
Proceeds from sale of student loan portfolio	—	—	25,032
Recoveries of loans charged-off	8,116	5,231	2,889
Proceeds from sales of OREO	42,814	15,896	20,336
Capital contribution to equity method investment	(900)	—	—
Capital distribution from unconsolidated subsidiary	1,238	—	—
Capital expenditures, net of proceeds from sales	(14,420)	(9,172)	(7,998)

Net cash used in investing activities	\$(141,079)	\$(125,939)	\$(387,511)
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Table of ContentsINTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

Year Ended December 31,	2012	2011	2010
Cash flows from financing activities:			
Net increase (decrease) in deposits	\$413,440	\$(98,742)	\$101,657
Net increase (decrease) in repurchase agreements	(10,458)	(103,911)	146,013
Net increase (decrease) in short-term borrowings	25	(4,984)	(432)
Repayments of long-term debt	(40)	(302)	(35,851)
Repayment of junior subordinated debentures held by subsidiary trusts	(41,238)	—	—
Proceeds from issuance of common stock	1,911	385	167,400
Common stock issuance costs	—	—	(13,597)
Excess tax benefits from stock-based compensation	273	124	225
Purchase and retirement of common stock	(263)	(248)	(3,699)
Dividends paid to common stockholders	(26,208)	(19,233)	(17,905)
Dividends paid to preferred stockholders	(3,300)	(3,422)	(3,422)
Net cash provided by (used in) financing activities	334,142	(230,333)	340,389
Net increase (decrease) in cash and cash equivalents	328,885	(213,171)	62,136
Cash and cash equivalents at beginning of year	472,447	685,618	623,482
Cash and cash equivalents at end of year	\$801,332	\$472,447	\$685,618
Supplemental disclosures of cash flow information:			
Cash paid during the year for income taxes	\$17,540	\$16,640	\$37,325
Cash paid during the year for interest expense	31,735	47,086	67,514

See accompanying notes to consolidated financial statements.

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(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business. First Interstate BancSystem, Inc. (the “Parent Company” and collectively with its subsidiaries, the “Company”) is a financial and bank holding company that, through the branch offices of its bank subsidiary, provides a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities throughout Montana, Wyoming and western South Dakota. In addition to its primary emphasis on commercial and consumer banking services, the Company also offers trust, employee benefit and investment and insurance services through its bank subsidiary. The Company is subject to competition from other financial institutions and nonbank financial companies, and is also subject to the regulations of various government agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Presentation. The Company’s consolidated financial statements include the accounts of the Parent Company and its operating subsidiaries. As of December 31, 2012, the Company had one significant subsidiary, First Interstate Bank (“FIB”). All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications, none of which were material, have been made in the consolidated financial statements for 2011 and 2010 to conform to the 2012 presentation. These reclassifications did not change previously reported net income or stockholders’ equity.

On March 5, 2010, the Company’s shareholders approved proposals to recapitalize the Company’s existing common stock. The recapitalization included, among other things, a redesignation of existing common stock as Class B common stock; a four-for-one stock split of the Class B common stock; and, the creation of a new class of common stock designated as Class A common stock. All share and per share information included in the accompanying consolidated financial statements, including the notes thereto, has been adjusted to give effect to the recapitalization of the common stock, including the four-for-one stock split of Class B common stock, as if the recapitalization had occurred on January 1, 2010, the earliest date presented. For additional information regarding the recapitalization, see Note 12—Capital Stock and Dividend Restrictions.

Equity Method Investments. The Company has an investment in a real estate joint venture that is not consolidated because the Company does not own a majority voting interest, control the operations or receive a majority of the losses or earnings of the joint venture. This joint venture is accounted for using the equity method of accounting whereby the Company initially records its investment at cost and then subsequently adjusts the cost for the Company’s proportionate share of distributions and earnings or losses of the joint venture.

Variable Interest Entities. The Company’s wholly-owned business trusts, First Interstate Statutory Trust (“FIST”), FI Statutory Trust I (“Trust I”), FI Capital Trust II (“Trust II”), FI Statutory Trust III (“Trust III”), FI Capital Trust IV (“Trust IV”), FI Statutory Trust V (“Trust V”) and FI Statutory Trust VI (“Trust VI”) are variable interest entities for which the Company is not a primary beneficiary. Accordingly, the accounts of FIST, Trust I, Trust II, Trust III, Trust IV, Trust V and Trust VI are not included in the accompanying consolidated financial statements, and are instead accounted for using the equity method of accounting.

Assets Held in Fiduciary or Agency Capacity. The Company holds certain trust assets in a fiduciary or agency capacity. The Company also purchases and sells federal funds as an agent. These and other assets held in an agency or fiduciary capacity are not assets of the Company and, accordingly, are not included in the accompanying consolidated financial statements.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses and the valuation of goodwill and other real estate owned.

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Cash and Cash Equivalents. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold for one day periods and interest bearing deposits in banks with original maturities of less than three months. As of December 31, 2012 and 2011, the Company had cash of \$622,152 and \$329,390, respectively, on deposit with the Federal Reserve Bank. In addition, the Company maintained compensating balances with the Federal Reserve Bank of approximately \$1,057 and \$5,000 as of December 31, 2012 and 2011 to reduce service charges for check clearing services.

Investment Securities. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortized cost. Investments in debt securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, or other factors, and marketable equity securities are classified as available-for-sale and carried at fair value. The unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity and comprehensive income. Management determines the appropriate classification of securities at the time of purchase and at each reporting date management reassesses the appropriateness of the classification.

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for accretion of discounts to maturity and amortization of premiums over the estimated average life of the security, or in the case of callable securities, through the first call date, using the effective yield method. Such amortization and accretion is included in interest income. Realized gains and losses are included in investment securities gains (losses). Declines in the fair value of securities below their cost that are judged to be other-than-temporary are included in other expenses if the decline is related to credit losses. Other-than-temporary impairment losses related to other factors are recognized in other comprehensive income, net of income taxes. In estimating other-than-temporary impairment losses, the Company considers, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of securities sold is based on the specific identification method.

The Company invests in securities on behalf of certain officers and directors of the Company who have elected to participate in the Company's deferred compensation plans. These securities are included in other assets and are carried at their fair value based on quoted market prices. Net realized and unrealized holding gains and losses are included in other non-interest income and employee benefits expense.

Loans. Loans are reported at the principal amount outstanding. Interest income on loans is calculated using the simple interest method on the daily balance of the principal amount outstanding. Loan origination fees and certain direct origination costs are deferred, and the net amount is amortized as an adjustment of the related loan's yield using a level yield method over the expected lives of the related loans.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payment obligations as they become due or when a loan becomes contractually past due 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 interest accrual is discontinued, all unpaid accrued interest is reversed against current period interest income. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and when, in the opinion of management, the loans are estimated to be fully collectible as to both principal and interest.

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 amounts due according to the contractual terms of the loan's original agreement. 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 primary source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by anticipated selling costs, is used to measure impairment. The Company considers impaired loans to include all loans risk rated doubtful and non-consumer loans on which interest accrual has been discontinued or have been renegotiated in a troubled debt restructuring. Interest payments received on impaired loans are applied based on whether they are on accrual or non-accrual status. Interest income recognized by the Company on impaired loans primarily relate to loans modified in a troubled debt restructuring that remain on accrual status. Interest payments received on non-accrual impaired loans are applied to principal. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due.

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A loan is considered a troubled debt restructuring when a borrower is experiencing financial difficulties that leads to a restructuring of the loan and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions to minimize potential losses. Certain troubled debt restructurings are on non-accrual status at the time of restructuring and are typically returned to accrual status only after considering the borrower's sustained repayment performance in accordance with the restructuring agreement for a reasonable period of at least six months and management is reasonably assured of future performance. If the troubled debt restructuring meets these performance criteria and the interest rate granted at the modification is equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, then the loan will no longer be disclosed as a troubled debt restructuring.

Included in loans are certain residential mortgage loans originated for sale. These loans are carried at the lower of aggregate cost or estimated market value. Market value is estimated based on binding contracts or quotes or bids from third party investors. Residential mortgages held for sale were \$66,442 and \$53,521 as of December 31, 2012 and 2011, respectively. Gains and losses on sales of mortgage loans are determined using the specific identification method and are included in income from the origination and sale of loans.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses which is charged to expense. Loans, or portions thereof, are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely or, with respect to consumer installment and credit card loans, according to established delinquency schedules. The allowance balance is an amount that management believes will be adequate to absorb known and inherent losses in the loan portfolio based upon quarterly analyses of the current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, industry concentrations and current economic factors and the estimated impact of current economic and environmental conditions on historical loss rates.

Goodwill. The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely impairment has occurred. Goodwill impairment is determined by comparing the fair value of a reporting unit to its carrying amount. In any given year the Company may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is in excess of its carrying value. If it is not more likely than not that the fair value of the reporting unit is in excess of the carrying value, or if the Company elects to bypass the qualitative assessment, a two-step quantitative impairment test is performed. In performing a quantitative test for impairment, the fair value of net assets is estimated based on analyses of the Company's market value, discounted cash flows and peer values. The determination of goodwill impairment is sensitive to market-based economics and other key assumptions used in determining or allocating fair value. Variability in the market and changes in assumptions or subjective measurements used to allocate fair value are reasonably possible and may have a material impact on our consolidated financial statements or results of operations.

Core Deposit Intangibles. Core deposit intangibles represent the intangible value of depositor relationships resulting from deposit liabilities assumed and are amortized using an accelerated method based on the estimated weighted average useful lives of the related deposits of 9.5 years. Accumulated core deposit intangibles amortization was \$20,983 as of December 31, 2012 and \$19,563 as of December 31, 2011. Amortization expense related to core deposit intangibles recorded as of December 31, 2012 is expected to total \$1,417, \$1,417, \$1,417, \$1,380 and \$306 in 2013,

2014, 2015, 2016 and 2017, respectively.

Mortgage Servicing Rights. The Company recognizes the rights to service mortgage loans for others, whether acquired or internally originated. Mortgage servicing rights are initially recorded at fair value based on comparable market data and are amortized in proportion to and over the period of estimated net servicing income. Mortgage 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.

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Premises and Equipment. Buildings, furniture and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using straight-line methods over estimated useful lives of 5 to 45 years for buildings and improvements and 4 to 15 years for furniture and equipment. Leasehold improvements and assets acquired under capital lease are amortized over the shorter of their estimated useful lives or the terms of the related leases. Land is recorded at cost.

Company-Owned Life Insurance. Key executive life insurance policies are recorded at their cash surrender value. Group life insurance policies are subject to a stable value contract that offsets the impact of interest rate fluctuations on the market value of the policies. Group life insurance policies are recorded at the stabilized investment value. Increases in the cash surrender or stabilized investment value of insurance policies, as well as insurance proceeds received, are recorded as other non-interest income, and are not subject to income taxes.

Impairment of Long-Lived Assets. Long-lived assets, including premises and equipment and certain identifiable intangibles, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The amount of the impairment loss, if any, is based on the asset's fair value. Impairment losses of \$70 were recognized in other non-interest expense in 2012. No impairment losses were recognized during 2011 or 2010.

Other Real Estate Owned. Real estate acquired in satisfaction of loans is initially carried at current fair value less estimated selling costs. Any excess of loan carrying value over the fair value of the real estate acquired is recorded as a charge to the allowance for loan losses. Subsequent declines in fair value less estimated selling costs are included in OREO expense. Subsequent increases in fair value less estimated selling costs are recorded as a reduction in OREO expense to the extent of recognized losses. Operating expenses, net of related income, and gains or losses on sales are included in OREO expense. Write-downs of \$6,724, \$7,464 and \$6,724 were recorded in 2012, 2011 and 2010 respectively.

Restricted Equity Securities. The Company, as a member of the Federal Reserve Bank and the Federal Home Loan Bank ("FHLB"), is required to maintain investments in each of the organization's capital stock. As of December 31, 2012, restricted equity securities of the Federal Reserve Bank and the Federal Home Loan Bank of \$13,357 and \$6,687, respectively, were included in other assets at cost. As of December 31, 2011, restricted equity securities of the Federal Reserve Bank and the Federal Home Loan Bank were \$13,357 and \$6,807, respectively. No ready market exists for these restricted equity securities, and they have no quoted market values. Restricted equity securities are periodically reviewed for impairment based on ultimate recovery of par value. The determination of whether a decline affects the ultimate recovery of par value is influenced by the significance of the decline compared to the cost basis of the restricted equity securities, the length of time a decline has persisted, the impact of legislative and regulatory changes on the issuing organizations and the liquidity positions of the issuing organizations. Based on management's assessment, no impairment losses were recorded on restricted equity securities during 2012, 2011 or 2010.

Income from Fiduciary Activities. Consistent with industry practice, income for trust services is recognized on the basis of cash received. However, use of this method in lieu of accrual basis accounting does not materially affect reported earnings.

Income Taxes. The Parent Company and its subsidiaries have elected to be included in a consolidated federal income tax return. For state income tax purposes, the combined taxable income of the Parent Company and its subsidiaries is

apportioned among the states in which operations take place. Federal and state income taxes attributable to the subsidiaries, computed on a separate return basis, are paid to or received from the Parent Company.

The Company accounts for income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are determined based on enacted income tax rates which will be in effect when the differences between the financial statement carrying values and tax bases of existing assets and liabilities are expected to be reported in taxable income.

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Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the income statement. With few exceptions, the Company is no longer subject to U.S. federal and state examinations by tax authorities for years before 2009. The Company had no accrued interest or penalties as of December 31, 2012 or 2011.

Earnings Per Common Share. Basic and diluted earnings per common share are calculated using a two-class method. Under the two-class method, basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding outstanding participating securities. Participating securities include non-vested restricted stock awards. Diluted earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding determined for the basic earnings per share calculation plus the dilutive effect of stock compensation using the treasury stock method.

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 shareholders. In addition to net income, the Company's comprehensive income includes the after tax effect of changes in unrealized gains and losses on available-for-sale investment securities and changes in net actuarial gains and losses on defined benefit post-retirement benefits plans.

Segment Reporting. An operating segment is defined as a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and evaluate performance. The Company has one operating segment, community banking, which encompasses commercial and consumer banking services offered to individuals, businesses, municipalities and other entities.

Advertising Costs. Advertising costs are expensed as incurred. Advertising expense was \$3,555, \$3,048, and \$3,200 in 2012, 2011 and 2010, respectively.

Transfers of Financial Assets. Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company; the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets; and, the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Stock-Based Compensation. Compensation cost for all stock-based awards is measured at fair value on the date of grant and is recognized over the requisite service period for awards expected to vest. Stock-based compensation expense of \$2,485, \$1,906 and \$1,660 for the years ended December 31, 2012, 2011 and 2010, respectively, is

included in benefits expense in the Company's consolidated statements of income. Related income tax benefits recognized for the years ended December 31, 2012, 2011 and 2010 were \$950, \$728 and \$635, respectively. All compensation cost for stock-based awards is expensed at the Parent Company.

Fair Value Measurements. In general, fair value measurements are based upon quoted market prices, where available. If quoted market prices are not available, fair value measurements are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and require some degree of judgment regarding interest rates, credit risk, prepayments and other factors. The use of different assumptions or estimation techniques may have a significant effect on the fair value amounts reported.

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(2) INVESTMENT SECURITIES

The amortized cost and approximate fair values of investment securities are summarized as follows:

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
Obligations of U.S. government agencies	\$751,501	\$3,518	\$(163)	)\$754,856
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	1,214,377	27,000	(1,526)	)1,239,851
Private mortgage-backed securities	539	13	(1)	)551
Total	\$1,966,417	\$30,531	\$(1,690)	)\$1,995,258
December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to Maturity				
State, county and municipal securities	\$192,875	\$10,835	\$(176)	)\$203,534
Corporate securities	14,975	64	(13)	)15,026
Other securities	373	—	—	)373
Total	\$208,223	\$10,899	\$(189)	)\$218,933

Gross gains of \$351 and gross losses of \$3 were realized on the disposition of available-for-sale securities in 2012.

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
Obligations of U.S. government agencies	\$1,134,427	\$4,353	\$(662)	)\$1,138,118
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	848,444	29,567	(14)	)877,997
Private mortgage-backed securities	758	7	(16)	)749
Total	\$1,983,629	\$33,927	\$(692)	)\$2,016,864
December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to Maturity				
State, county and municipal securities	\$152,619	\$9,113	\$(17)	)\$161,715
Other securities	162	—	—	)162
Total	\$152,781	\$9,113	\$(17)	)\$161,877

Gross gains of \$1,544 were realized on the disposition of available-for-sale securities in 2011. No gross losses were realized on the disposition of available-for-sale securities in 2011. Gross gains of \$173 and gross losses of \$3 were realized on the disposition of available-for-sale securities in 2010.

As of December 31, 2012, the Company had general obligation securities with amortized costs of \$139,434 included in state, county and municipal securities, of which \$67,171 were issued by political subdivisions or agencies within the states of Montana, Wyoming and South Dakota.

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The following table shows the gross unrealized losses and fair values of investment securities, aggregated by investment category, and the length of time individual investment securities have been in a continuous unrealized loss position, as of December 31, 2012 and 2011.

	Less than 12 Months		12 Months or More		Total	
December 31, 2012	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale						
Obligations of U.S. government agencies	\$93,982	\$(163)	)\$—	\$—	\$93,982	\$(163)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	250,198	(1,526)	)—	—	250,198	(1,526)
Private mortgage-backed securities	—	—	137	(1)	)137	(1)
Total	\$344,180	\$(1,689)	)\$137	\$(1)	)\$344,317	\$(1,690)
	Less than 12 Months		12 Months or More		Total	
December 31, 2012	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity						
State, county and municipal securities	\$19,389	\$(168)	)\$557	\$(8)	)\$19,946	\$(176)
Corporate securities	9,312	(13)	)—	—	9,312	(13)
Total	\$28,701	(181)	)557	(8)	)29,258	(189)
	Less than 12 Months		12 Months or More		Total	
December 31, 2011	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale						
Obligations of U.S. government agencies	\$287,404	\$(662)	)\$—	\$—	\$287,404	\$(662)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	45,694	(14)	)—	—	45,694	(14)
Private mortgage-backed securities	246	(10)	)177	(6)	)423	(16)
Total	\$333,344	\$(686)	)\$177	\$(6)	)\$333,521	\$(692)
	Less than 12 Months		12 Months or More		Total	
December 31, 2011	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity						
State, county and municipal securities	\$—	\$—	\$773	\$(17)	)\$773	\$(17)

The investment portfolio is evaluated quarterly for other-than-temporary declines in the market value of each individual investment security. Consideration is given to the length of time and the extent to which the fair value has been less than cost; the financial condition and near term prospects of the issuer; and, the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2012, the Company had 69 individual investment securities that were in an unrealized loss position. As of December 31, 2011, the Company had 24 individual investment securities that were in an unrealized loss position. Unrealized losses as of December 31, 2012 and 2011 related primarily to fluctuations in the current interest rates. The fair value of these investment securities is expected to recover as the securities approach their maturity or repricing date or if market yields for such investments decline. As of December 31, 2012, the Company had the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery. Furthermore,

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the Company does not have the intent to sell any of the available-for-sale securities in the above table and it is more likely than not that the Company will not have to sell any such securities before a recovery in cost. No impairment losses were recorded during 2012, 2011 or 2010.

Maturities of investment securities at December 31, 2012 are shown below. Maturities of mortgage-backed securities have been adjusted to reflect shorter maturities based upon estimated prepayments of principal. All other investment securities maturities are shown at contractual maturity dates.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
December 31, 2012				
Within one year	\$438,770	\$445,319	\$4,657	\$4,657
After one year but within five years	1,042,696	1,056,854	47,437	48,293
After five years but within ten years	351,310	356,641	86,416	90,954
After ten years	133,641	136,444	69,340	74,656
Total	1,966,417	1,995,258	207,850	218,560
Investments with no stated maturity	—	—	373	373
Total	\$1,966,417	\$1,995,258	\$208,223	\$218,933

At December 31, 2012, the Company had investment securities callable within one year with amortized costs and estimated fair values of \$370,546 and \$371,280, respectively. These investment securities are primarily classified as available-for-sale and included in the after one year but within five years category in the table above.

At December 31, 2012, the Company had callable structured notes with amortized costs and estimated fair values of \$148,428 and \$148,778, respectively. These callable structured notes, which are classified as available-for-sale and included in the after one year but within five years category in the table above, have fixed interest rates that increase at various intervals as market rates increase.

Maturities of securities do not reflect rate repricing opportunities present in adjustable rate mortgage-backed securities. At December 31, 2012 and 2011, the Company had variable rate mortgage-backed securities with amortized costs of \$29,105 and \$21,333, respectively, classified as available-for-sale in the table above.

There are no significant concentrations of investments at December 31, 2012, (greater than 10 percent of stockholders' equity) in any individual security issuer, except for U.S. government or agency-backed securities. As of December 31, 2012 and 2011, all mortgage-backed securities were residential in nature.

Investment securities with amortized cost of \$1,318,807 and \$1,280,317 at December 31, 2012 and 2011, respectively, were pledged to secure public deposits and securities sold under repurchase agreements. The approximate fair value of securities pledged at December 31, 2012 and 2011 was \$1,344,220 and \$1,310,895, respectively. All securities sold under repurchase agreements are with customers and mature on the next banking day. The Company retains possession of the underlying securities sold under repurchase agreements.

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(3)LOANS

The following table presents loans by class as of the dates indicated:

December 31,	2012	2011
Real estate loans:		
Commercial	\$1,497,272	\$1,553,155
Construction:		
Land acquisition & development	220,196	278,613
Residential	49,274	61,106
Commercial	65,059	61,054
Total construction loans	334,529	400,773
Residential	708,339	571,943
Agricultural	177,244	175,302
Total real estate loans	2,717,384	2,701,173
Consumer:		
Indirect consumer	438,245	407,651
Other consumer	137,743	147,487
Credit card	60,806	60,933
Total consumer loans	636,794	616,071
Commercial	688,753	693,261
Agricultural	113,627	119,710
Other, including overdrafts	912	2,813
Loans held for investment	4,157,470	4,133,028
Mortgage loans held for sale	66,442	53,521
Total loans	\$4,223,912	\$4,186,549

The Company has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and internally risk-classified loans.

Real estate loans include construction and permanent financing for both single-family and multi-unit properties, term loans for commercial, agricultural and industrial property and/or buildings and home equity loans and lines of credit secured by real estate. Longer-term residential real estate loans are generally sold in the secondary market. Those residential real estate loans not sold are typically secured by first liens on the financed property and generally mature in less than fifteen years. Home equity loans and lines of credit are typically secured by first or second liens on residential real estate and generally do not exceed a loan to value ratio of 80%. The Company had home equity loans and lines of credit of \$273,739 and \$312,295 as of December 31, 2012 and 2011, respectively. Commercial and agricultural real estate loans are generally secured by first liens on income-producing real estate and generally mature in less than 5 years.

Construction loans are primarily to commercial builders for residential lot development and the construction of single-family residences and commercial real estate properties. Construction loans are generally underwritten pursuant

to pre-approved permanent financing. During the construction phase the borrower pays interest only.

Consumer loans include direct personal loans, credit card loans and lines of credit; and indirect dealer loans for the purchase of automobiles, recreational vehicles, boats and other consumer goods. Personal loans and indirect dealer loans are generally secured by automobiles, boats and other types of personal property and are made on an installment basis. Credit cards are offered to individuals in our market areas. Lines of credit are generally floating rate loans that are unsecured or secured by personal property.

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Commercial loans include a mix of variable and fixed rate loans made to small and medium-sized manufacturing, wholesale, retail and service businesses for working capital needs and business expansions. Commercial loans generally include lines of credit, business credit cards and loans with maturities of five years or less. The loans are generally made with business operations as the primary source of repayment, but also include collateralization by inventory, accounts receivable, equipment and/or personal guarantees.

Agricultural loans generally consist of short and medium-term loans and lines of credit that are primarily used for crops, livestock, equipment and general operations. Agricultural loans are ordinarily secured by assets such as livestock or equipment and are repaid from the operations of the farm or ranch. Agricultural loans generally have maturities of five years or less, with operating lines for one production season.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following tables present the contractual aging of the Company's recorded investment in past due loans by class as of the period indicated:

	Total Loans				Current Loans	Non-accrual Loans	Total Loans
	30 - 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	30 or More Days Past Due			
As of December 31, 2012							
Real estate							
Commercial	\$5,449	\$3,163	\$2	\$8,614	\$1,438,142	\$50,516	\$1,497,272
Construction:							
Land acquisition & development	3,371	2,121	318	5,810	195,077	19,309	220,196
Residential	283	—	—	283	46,816	2,175	49,274
Commercial	—	—	—	—	56,933	8,126	65,059
Total construction loans	3,654	2,121	318	6,093	298,826	29,610	334,529
Residential	3,896	969	1,085	5,950	691,963	10,426	708,339
Agricultural	1,187	—	218	1,405	171,009	4,830	177,244
Total real estate loans	14,186	6,253	1,623	22,062	2,599,940	95,382	2,717,384
Consumer:							
Indirect consumer	3,218	512	32	3,762	434,200	283	438,245
Other consumer	1,044	104	31	1,179	135,574	990	137,743
Credit card	409	278	392	1,079	59,704	23	60,806
Total consumer loans	4,671	894	455	6,020	629,478	1,296	636,794
Commercial	5,463	1,064	216	6,743	671,414	10,596	688,753
Agricultural	1,710	361	—	2,071	111,031	525	113,627
Other, including overdrafts	—	—	—	—	912	—	912
Loans held for investment	26,030	8,572	2,294	36,896	4,012,775	107,799	4,157,470
Mortgage loans originated for sale	—	—	—	—	66,442	—	66,442
Total loans	\$26,030	\$8,572	\$2,294	\$36,896	\$4,079,217	\$107,799	\$4,223,912

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As of December 31, 2011	30 - 59	60 - 89	> 90	Total Loans		Non-accrual Loans	Total Loans
	Days Past Due	Days Past Due	Days Past Due	30 or More Days Past Due	Current Loans		
Real estate							
Commercial	\$22,124	\$7,871	\$630	\$30,625	\$1,455,139	\$67,391	\$1,553,155
Construction:							
Land acquisition & development	5,251	2,448	867	8,566	208,134	61,913	278,613
Residential	415	—	—	415	56,219	4,472	61,106
Commercial	1,698	—	—	1,698	34,820	24,536	61,054
Total construction loans	7,364	2,448	867	10,679	299,173	90,921	400,773
Residential	4,669	973	1,798	7,440	546,278	18,225	571,943
Agricultural	4,103	1,831	—	5,934	166,119	3,249	175,302
Total real estate loans	38,260	13,123	3,295	54,678	2,466,709	179,786	2,701,173
Consumer:							
Indirect consumer	3,078	370	45	3,493	403,695	463	407,651
Other consumer	1,479	436	60	1,975	144,625	887	147,487
Credit card	604	375	585	1,564	59,343	26	60,933
Total consumer loans	5,161	1,181	690	7,032	607,663	1,376	616,071
Commercial	13,721	3,464	405	17,590	657,609	18,062	693,261
Agricultural	476	215	110	801	118,150	759	119,710
Other, including overdrafts	—	2	—	2	2,811	—	2,813
Loans held for investment	57,618	17,985	4,500	80,103	3,852,942	199,983	4,133,028
Mortgage loans originated for sale	—	—	—	—	53,521	—	53,521
Total loans	\$57,618	\$17,985	\$4,500	\$80,103	\$3,906,463	\$199,983	\$4,186,549

If interest on non-accrual loans had been accrued, such income would have approximated \$8,537, \$12,508 and \$8,942 during the years ended December 31, 2012, 2011 and 2010, respectively.

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The Company considers impaired loans to include all loans risk rated doubtful, loans placed on non-accrual status and loans renegotiated in troubled debt restructurings with the exception of consumer loans. The following tables present information on the Company's recorded investment in impaired loans as of dates indicated:

	December 31, 2012				
	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	\$84,300	\$39,049	\$34,774	\$73,823	\$4,112
Construction:					
Land acquisition & development	28,558	15,891	7,173	23,064	1,457
Residential	3,018	1,976	710	2,686	251
Commercial	10,447	7,785	340	8,125	69
Total construction loans	42,023	25,652	8,223	33,875	1,777
Residential	13,271	6,152	4,495	10,647	1,677
Agricultural	5,559	1,834	3,227	5,061	784
Total real estate loans	145,153	72,687	50,719	123,406	8,350
Commercial	12,770	9,036	3,206	12,242	1,919
Agricultural	589	509	28	537	28
Total	\$158,512	\$82,232	\$53,953	\$136,185	\$10,297
	December 31, 2011				
	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	\$97,745	\$62,769	\$23,218	\$85,987	\$6,741
Construction:					
Land acquisition & development	73,258	22,300	39,131	61,431	12,084
Residential	13,721	10,427	2,044	12,471	312
Commercial	26,647	3,510	21,026	24,536	5,042
Total construction loans	113,626	36,237	62,201	98,438	17,438
Residential	18,305	2,678	15,626	18,304	3,844
Agricultural	8,018	7,470	—	7,470	—
Total real estate loans	237,694	109,154	101,045	210,199	28,023
Commercial	26,348	7,354	12,284	19,638	4,664
Agricultural	759	496	263	759	151
Total	\$264,801	\$117,004	\$113,592	\$230,596	\$32,838

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	December 31, 2010				
	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	\$79,193	\$31,925	\$41,703	\$73,628	\$10,315
Construction:					
Land acquisition & development	48,371	24,120	20,440	44,560	8,064
Residential	18,632	2,993	13,721	16,714	3,431
Commercial	17,458	2,976	13,578	16,554	3,877
Total construction loans	84,461	30,089	47,739	77,828	15,372
Residential	8,951	1,741	7,110	8,851	1,266
Agricultural	3,045	1,065	1,432	2,497	128
Total real estate loans	175,650	64,820	97,984	162,804	27,081
Commercial	36,251	11,354	24,168	35,522	14,892
Agricultural	976	498	478	976	253
Total	\$212,877	\$76,672	\$122,630	\$199,302	\$42,226

The following tables present the average recorded investment in and income recognized on impaired loans for the periods indicated:

	Year Ended December 31,				
	2012		2011		2010
	Average Recorded Investment	Income Recognized	Average Recorded Investment	Income Recognized	Average Recorded Investment
Real estate:					
Commercial	\$78,670	\$1,339	\$85,702	\$633	\$49,713
Construction:					
Land acquisition & development	44,457	110	57,675	96	34,871
Residential	8,431	4	19,769	384	15,097
Commercial	16,401	—	20,676	—	21,086
Total construction loans	69,289	114	98,120	480	71,054
Residential	13,703	26	15,768	258	10,889
Agricultural	6,936	41	6,188	167	1,737
Total real estate loans	168,598	1,520	205,778	1,538	133,393
Commercial	15,741	84	31,490	121	22,017
Agricultural	942	27	907	—	974
Total	\$185,281	\$1,631	\$238,175	\$1,659	\$156,384

The amount of interest income recognized by the Company within the period that the loans were impaired was primarily related to loans modified in a troubled debt restructuring that remained on accrual status. Interest payments received on non-accrual impaired loans are applied to principal. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. If interest on impaired loans had been accrued, interest

income on impaired loans during 2012, 2011 and 2010 would have been approximately \$8,463, \$12,358 and \$8,824, respectively.

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Collateralized impaired loans are generally recorded at the fair value of the underlying collateral using discounted cash flows, independent appraisals and management estimates based upon current market conditions. For loans measured under the present value of cash flows method, the change in present value attributable to the passage of time, if applicable, is recognized in the provision for loan losses and thus no interest income is recognized.

Modifications of performing loans are made in the ordinary course of business and are completed on a case-by-case basis as negotiated with the borrower. Loan modifications typically include interest rate concessions, interest only periods of less than twelve months, short-term payment deferrals and extension of amortization periods to provide payment relief. A loan modification is considered a troubled debt restructuring if the borrower is experiencing financial difficulties and the Company, for economic or legal reasons, grants a concession to the borrower that it would not otherwise consider. Certain troubled debt restructurings are on non-accrual status at the time of restructuring and are typically returned to accrual status after considering the borrower's sustained repayment performance in accordance with the restructuring agreement for a period of at least six months and management is reasonably assured of future performance. If the troubled debt restructuring meets these performance criteria and the interest rate granted at the modification is equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, then the loan will return to performing status and the accrual of interest will resume.

The Company had loans renegotiated in troubled debt restructurings of \$76,597 as of December 31, 2012, of which \$44,665 were included in non-accrual loans and \$31,932 were on accrual status. The Company had loans renegotiated in troubled debt restructurings of \$94,827 as of December 31, 2011, of which \$57,451 were included in non-accrual loans and \$37,376 were on accrual status.

The following table presents information on the Company's troubled debt restructurings that occurred during the periods indicated:

Year Ended December 31, 2012	Number of Notes	Type of Concession			Other	Principal Balance at Restructure Date
		Interest only period	Extension of terms or maturity	Interest rate adjustment		
Real estate:						
Commercial	16	\$—	\$959	\$4,504	\$8,611	\$14,074
Construction:						
Commercial	1	—	—	—	3,155	3,155
Land acquisition & development	5	—	1,000	1,757	623	3,380
Residential	2	—	280	233	—	513
Total construction loans	8	—	1,280	1,990	3,778	7,048
Residential	2	568	25	—	—	593
Agriculture	1	—	154	—	—	154
Total real estate loans	27	568	2,418	6,494	12,389	21,869
Consumer:						
Other consumer	1	—	69	—	—	69
Total consumer loans	1	—	69	—	—	69
Commercial	10	387	217	—	218	822

Agriculture	—		—		—	—
Total	38	\$955	\$2,704	\$6,494	\$12,607	\$22,760

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Year ended December 31, 2011	Number of Notes	Type of Concession			Other	Principal Balance at Restructure Date
		Interest only period	Extension of terms or maturity	Interest rate adjustment		
Real estate:						
Commercial	60	\$23,982	\$4,444	\$3,131	\$7,364	\$38,921
Construction:						
Land acquisition & development	9	995	4,124	680	408	