

FIRST INTERSTATE BANCSYSTEM INC  
Form 10-Q  
August 05, 2016

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

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FORM 10-Q

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Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2016  
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

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First Interstate BancSystem, Inc.  
(Exact name of registrant as specified in its charter)

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|   |                                      |
|---|--------------------------------------|
| Montana   | 81-0331430                           |
| (State or other jurisdiction of<br>incorporation or organization) | (IRS Employer<br>Identification No.) |

|  |            |
|--|------------|
| 401 North 31st Street, Billings, MT      | 59116-0918 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: 406/255-5390

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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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the Registrant's classes of common stock:

June 30, 2016 – Class A common stock 21,131,759

June 30, 2016 – Class B common stock 23,614,455



FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

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

(In thousands, except share data)

(Unaudited)

|   | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
| Assets  |                  |                      |
| Cash and due from banks   | \$ 125,995       | \$ 132,595           |
| Interest bearing deposits in banks  | 349,910          | 647,299              |
| Federal funds sold  | 146              | 563                  |
| Total cash and cash equivalents   | 476,051          | 780,457              |
| Investment securities:  |                  |                      |
| Available-for-sale  | 1,505,581        | 1,456,840            |
| Held-to-maturity (estimated fair values of \$574,482 and \$607,550 at June 30, 2016 and December 31, 2015, respectively)  | 556,247          | 600,665              |
| Total investment securities   | 2,061,828        | 2,057,505            |
| Loans held for investment   | 5,340,189        | 5,193,321            |
| Mortgage loans held for sale  | 73,053           | 52,875               |
| Total loans   | 5,413,242        | 5,246,196            |
| Less allowance for loan losses  | 80,340           | 76,817               |
| Net loans   | 5,332,902        | 5,169,379            |
| Goodwill  | 204,481          | 204,523              |
| Company-owned life insurance  | 189,524          | 187,253              |
| Premises and equipment, net of accumulated depreciation   | 187,538          | 190,812              |
| Accrued interest receivable   | 27,448           | 27,729               |
| Mortgage servicing rights, net of accumulated amortization and impairment reserve   | 16,038           | 15,621               |
| Core deposit intangibles, net of accumulated amortization   | 8,935            | 10,589               |
| Other real estate owned ("OREO")  | 7,908            | 6,254                |
| Other assets  | 92,723           | 78,074               |
| Total assets  | \$8,605,376      | \$ 8,728,196         |
| Liabilities and Stockholders' Equity  |                  |                      |
| Deposits:   |                  |                      |
| Non-interest bearing  | \$ 1,783,609     | \$ 1,823,716         |
| Interest bearing  | 5,197,839        | 5,265,221            |
| Total deposits  | 6,981,448        | 7,088,937            |
| Securities sold under repurchase agreements   | 466,399          | 510,635              |
| Accounts payable and accrued expenses   | 59,664           | 53,042               |
| Accrued interest payable  | 5,647            | 4,960                |
| Deferred tax liability  | 16,673           | 9,765                |
| Long-term debt  | 27,928           | 27,885               |
| Other borrowed funds  | 15               | 2                    |
| Subordinated debentures held by subsidiary trusts   | 82,477           | 82,477               |
| Total liabilities   | 7,640,251        | 7,777,703            |
| Stockholders' equity:   |                  |                      |
| Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued and outstanding as of June 30, 2016 or December 31, 2015 | —                | —                    |
| Common stock  | 290,366          | 311,720              |

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|   |             |              |
|---|-------------|--------------|
| Retained earnings                           | 664,337     | 638,367      |
| Accumulated other comprehensive income, net | 10,422      | 406          |
| Total stockholders' equity                  | 965,125     | 950,493      |
| Total liabilities and stockholders' equity  | \$8,605,376 | \$ 8,728,196 |

See accompanying notes to unaudited 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)

(Unaudited)

|   | Three Months   |          | Six Months Ended |           |
|---|----------------|----------|------------------|-----------|
|   | Ended June 30, |          | June 30,         |           |
|   | 2016           | 2015     | 2016             | 2015      |
| Interest income:  |                |          |                  |           |
| Interest and fees on loans                                    | \$62,634       | \$60,402 | \$125,450        | \$119,773 |
| Interest and dividends on investment securities:              |                |          |                  |           |
| Taxable   | 7,982          | 8,000    | 16,020           | 15,971    |
| Exempt from federal taxes                                     | 858            | 1,040    | 1,737            | 2,099     |
| Interest on deposits in banks                                 | 482            | 271      | 1,127            | 660       |
| Interest on federal funds sold                                | 3              | 5        | 5                | 7         |
| Total interest income   | 71,959         | 69,718   | 144,339          | 138,510   |
| Interest expense:   |                |          |                  |           |
| Interest on deposits  | 3,108          | 3,239    | 6,336            | 6,548     |
| Interest on securities sold under repurchase agreements       | 92             | 53       | 182              | 107       |
| Interest on long-term debt                                    | 451            | 538      | 900              | 1,052     |
| Interest on subordinated debentures held by subsidiary trusts | 675            | 600      | 1,338            | 1,190     |
| Total interest expense  | 4,326          | 4,430    | 8,756            | 8,897     |
| Net interest income   | 67,633         | 65,288   | 135,583          | 129,613   |
| Provision for loan losses                                     | 2,550          | 1,340    | 6,550            | 2,435     |
| Net interest income after provision for loan losses           | 65,083         | 63,948   | 129,033          | 127,178   |
| Non-interest income:  |                |          |                  |           |
| Payment services revenues                                     | 8,648          | 8,437    | 16,639           | 15,809    |
| Mortgage banking revenues                                     | 9,409          | 8,802    | 15,550           | 14,708    |
| Wealth management revenues                                    | 5,166          | 4,897    | 9,741            | 9,834     |
| Service charges on deposit accounts                           | 4,626          | 4,053    | 9,089            | 7,997     |
| Other service charges, commissions and fees                   | 2,845          | 2,736    | 5,453            | 5,231     |
| Investment securities gains, net                              | 108            | 46       | 87               | 52        |
| Other income  | 2,457          | 2,792    | 4,750            | 6,050     |
| Non-recurring litigation recovery                             | 3,750          | —        | 3,750            | —         |
| Total non-interest income                                     | 37,009         | 31,763   | 65,059           | 59,681    |
| Non-interest expense:   |                |          |                  |           |
| Salaries and wages  | 26,707         | 26,093   | 51,389           | 51,442    |
| Employee benefits   | 8,066          | 8,063    | 17,675           | 15,979    |
| Outsourced technology services                                | 4,800          | 2,593    | 9,632            | 5,056     |
| Occupancy, net  | 4,284          | 4,529    | 8,948            | 9,021     |
| Furniture and equipment                                       | 2,460          | 3,703    | 4,716            | 7,496     |
| OREO expense, net of income                                   | 140            | (823)    | 101              | (884)     |
| Professional fees   | 1,136          | 1,514    | 2,444            | 2,815     |
| FDIC insurance premiums                                       | 1,198          | 1,304    | 2,456            | 2,446     |
| Mortgage servicing rights amortization                        | 722            | 627      | 1,356            | 1,246     |
| Mortgage servicing rights impairment recovery                 | (20)           | (56)     | (5)              | (71)      |
| Core deposit intangibles amortization                         | 827            | 854      | 1,654            | 1,709     |
| Other expenses  | 12,575         | 13,577   | 24,198           | 25,381    |
| Acquisition expenses  | —              | (7)      | —                | 63        |

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|                                  |          |          |          |          |
|----------------------------------|----------|----------|----------|----------|
| Total non-interest expense       | 62,895   | 61,971   | 124,564  | 121,699  |
| Income before income tax expense | 39,197   | 33,740   | 69,528   | 65,160   |
| Income tax expense               | 13,643   | 11,518   | 23,850   | 21,958   |
| Net income                       | \$25,554 | \$22,222 | \$45,678 | \$43,202 |

|                                   |        |        |        |        |
|-----------------------------------|--------|--------|--------|--------|
| Basic earnings per common share   | \$0.58 | \$0.49 | \$1.03 | \$0.95 |
| Diluted earnings per common share | \$0.57 | \$0.49 | \$1.02 | \$0.94 |

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)

(Unaudited)

|   | Three Months<br>Ended June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2016                           | 2015     | 2016                         | 2015     |
| Net income  | \$25,554                       | \$22,222 | \$45,678                     | \$43,202 |
| Other comprehensive income, before tax:   |                                |          |                              |          |
| Investment securities available-for sale:   |                                |          |                              |          |
| Change in net unrealized gains (losses) during period   | 10,043                         | (9,196 ) | 18,671                       | 1,412    |
| Reclassification adjustment for net gains included in income                                  | (108 )                         | (46 )    | (87 )                        | (52 )    |
| Change in unamortized loss on available-for-sale securities transferred into held-to-maturity | 452                            | 451      | 904                          | 902      |
| Unrealized loss on derivatives  | (804 )                         | —        | (3,002 )                     | —        |
| Defined benefit post-retirement benefits plans:   |                                |          |                              |          |
| Change in net actuarial loss  | 13                             | 13       | 28                           | 28       |
| Other comprehensive income (loss), before tax   | 9,596                          | (8,778 ) | 16,514                       | 2,290    |
| Deferred tax benefit (expense) related to other comprehensive income                          | (3,775 )                       | 3,454    | (6,498 )                     | (901 )   |
| Other comprehensive income (loss), net of tax   | 5,821                          | (5,324 ) | 10,016                       | 1,389    |
| Comprehensive income, net of tax  | \$31,375                       | \$16,898 | \$55,694                     | \$44,591 |
| See accompanying notes to unaudited consolidated financial statements.                        |                                |          |                              |          |

Table of ContentsFIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except share and per share data)

(Unaudited)

|  | Common<br>stock | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total<br>stockholders'<br>equity |
|--|-----------------|----------------------|--|----------------------------------|
| Balance at December 31, 2015   | \$311,720       | \$638,367            | \$ 406   | \$ 950,493                       |
| Net income   | —               | 45,678               | —  | 45,678                           |
| Other comprehensive income, net of tax expense   | —               | —                    | 10,016   | 10,016                           |
| Common stock transactions:   |                 |                      |  |                                  |
| 995,600 common shares purchased and retired  | (26,042 )       | —                    | —  | (26,042 )                        |
| 16,085 common shares issued  | —               | —                    | —  | —                                |
| 189,624 non-vested common shares issued  | —               | —                    | —  | —                                |
| 21,397 non-vested common shares forfeited  | —               | —                    | —  | —                                |
| 186,430 stock options exercised, net of 57,153 shares tendered in payment of option price and income tax withholding amounts | 1,684           | —                    | —  | 1,684                            |
| Tax benefit of stock-based compensation  | 619             | —                    | —  | 619                              |
| Stock-based compensation expense   | 2,385           | —                    | —  | 2,385                            |
| Common cash dividend declared (\$0.44 per share)   | —               | (19,708 )            | —  | (19,708 )                        |
| Balance at June 30, 2016   | \$290,366       | \$664,337            | \$ 10,422  | \$ 965,125                       |
| Balance at December 31, 2014   | \$323,596       | \$587,862            | \$ (2,534 )  | \$ 908,924                       |
| Net income   | —               | 43,202               | —  | 43,202                           |
| Other comprehensive income, net of tax expense   | —               | —                    | 1,389  | 1,389                            |
| Common stock transactions:   |                 |                      |  |                                  |
| 588,409 common shares purchased and retired  | (15,264 )       | —                    | —  | (15,264 )                        |
| 21,414 common shares issued  | —               | —                    | —  | —                                |
| 156,956 non-vested common shares issued  | —               | —                    | —  | —                                |
| 1,678 non-vested common shares forfeited   | —               | —                    | —  | —                                |
| 129,885 stock options exercised, net of 37,357 shares tendered in payment of option price and income tax withholding amounts | 1,670           | —                    | —  | 1,670                            |
| Tax benefit of stock-based compensation  | 804             | —                    | —  | 804                              |
| Stock-based compensation expense   | 2,319           | —                    | —  | 2,319                            |
| Common cash dividend declared (\$0.40 per share)   | —               | (18,189 )            | —  | (18,189 )                        |
| Balance at June 30, 2015   | \$313,125       | \$612,875            | \$ (1,145 )  | \$ 924,855                       |

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)

(Unaudited)

|   | Six Months Ended |            |
|---|------------------|------------|
|   | June 30,         |            |
|   | 2016             | 2015       |
| Cash flows from operating activities:   |                  |            |
| Net income  | \$45,678         | \$43,202   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |            |
| Provision for loan losses   | 6,550            | 2,435      |
| Net (gain) loss on disposal of premises and equipment                             | 188              | (856 )     |
| Depreciation and amortization   | 9,491            | 9,090      |
| Net premium amortization on investment securities                                 | 6,347            | 7,021      |
| Net gain on investment securities transactions                                    | (87 )            | (52 )      |
| Realized and unrealized net gains on mortgage banking activities                  | (10,544 )        | (10,759 )  |
| Net gain on sale of OREO  | (636 )           | (1,736 )   |
| Write-downs of OREO and other assets pending disposal                             | 621              | 106        |
| Mortgage servicing rights impairment recovery                                     | (5 )             | (71 )      |
| Deferred income tax expense   | 321              | 9,108      |
| Net increase in cash surrender value of company-owned life insurance              | (2,271 )         | (1,304 )   |
| Stock-based compensation expense  | 2,385            | 2,319      |
| Tax benefits from stock-based compensation expense                                | 619              | 804        |
| Excess tax benefits from stock-based compensation expense                         | (495 )           | (530 )     |
| Originations of mortgage loans held for sale                                      | (468,560 )       | (561,779 ) |
| Proceeds from sales of mortgage loans held for sale                               | 457,132          | 546,871    |
| Changes in operating assets and liabilities:                                      |                  |            |
| Decrease (increase) in interest receivable  | 281              | (1,945 )   |
| Increase in other assets  | (14,551 )        | (1,034 )   |
| Increase (decrease) in accrued interest payable                                   | 687              | (467 )     |
| Increase (decrease) in accounts payable and accrued expenses                      | 3,701            | (12,268 )  |
| Net cash provided by operating activities   | 36,852           | 28,155     |
| Cash flows from investing activities:   |                  |            |
| Purchases of investment securities:   |                  |            |
| Held-to-maturity  | (9,883 )         | (27,640 )  |
| Available-for-sale  | (459,569 )       | (223,483 ) |
| Proceeds from maturities and pay-downs of investment securities:                  |                  |            |
| Held-to-maturity  | 53,977           | 55,654     |
| Available-for-sale  | 424,458          | 337,538    |
| Purchases of company-owned life insurance   | —                | (22,500 )  |
| Extensions of credit to customers, net of repayments                              | (159,410 )       | (190,392 ) |
| Recoveries of loans charged-off   | 4,717            | 3,285      |
| Proceeds from sale of OREO  | 2,398            | 7,807      |
| Proceeds from sale of loan production office                                      | 932              | —          |
| Capital expenditures, net of sales  | (3,638 )         | 514        |
| Net cash used in investing activities   | \$(146,018)      | \$(59,217) |



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

(In thousands)

(Unaudited)

|   | Six Months Ended June 30,<br>2016 |  | 2015          |  |
|---|-----------------------------------|--|---------------|--|
| Cash flows from financing activities:                       |                                   |  |               |  |
| Net decrease in deposits                                    | \$ (107,489 )                     |  | \$ (201,811 ) |  |
| Net decrease in securities sold under repurchase agreements | (44,236 )                         |  | (33,105 )     |  |
| Net increase (decrease) in other borrowed funds             | 13                                |  | (6 )          |  |
| Repayments of long-term debt                                | (32 )                             |  | (30 )         |  |
| Advances on long-term debt                                  | 75                                |  | 5,031         |  |
| Proceeds from issuance of common stock                      | 1,684                             |  | 1,670         |  |
| Excess tax benefits from stock-based compensation expense   | 495                               |  | 530           |  |
| Purchase and retirement of common stock                     | (26,042 )                         |  | (15,264 )     |  |
| Dividends paid to common stockholders                       | (19,708 )                         |  | (18,189 )     |  |
| Net cash used in financing activities                       | (195,240 )                        |  | (261,174 )    |  |
| Net decrease in cash and cash equivalents                   | (304,406 )                        |  | (292,236 )    |  |
| Cash and cash equivalents at beginning of period            | 780,457                           |  | 798,670       |  |
| Cash and cash equivalents at end of period                  | \$ 476,051                        |  | \$ 506,434    |  |

Supplemental disclosures of cash flow information:

|   |           |           |
|---|-----------|-----------|
| Cash paid during the period for income taxes                            | \$ 27,566 | \$ 18,450 |
| Cash paid during the period for interest expense                        | 8,069     | 9,364     |
| Supplemental disclosures of noncash investing and financing activities: |           |           |
| Transfer of loans to loans held for sale                                | 26        | 10,619    |
| Transfer of loans to other real estate owned                            | 4,019     | 4,396     |
| Capitalization of internally originated mortgage servicing rights       | 1,768     | 1,792     |

See accompanying notes to unaudited consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands, except share and per share data)

## (1) Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements of First Interstate BancSystem, Inc. and subsidiaries (the "Company") contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the financial position of the Company at June 30, 2016 and December 31, 2015, the results of operations for each of the three and six month periods ended June 30, 2016 and 2015, and cash flows each of the six month periods ended June 30, 2016 and 2015, in conformity with U.S. generally accepted accounting principles. The balance sheet information at December 31, 2015 is derived from audited consolidated financial statements. Certain reclassifications, none of which were material, have been made to conform prior year financial statements to the June 30, 2016 presentation. These reclassifications did not change previously reported net income or stockholders' equity.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

## (2) Acquisitions

Flathead Bank. On April 6, 2016, the Company's bank subsidiary, First Interstate Bank, entered into a stock purchase agreement to acquire all of the outstanding stock of Flathead Bank of Bigfork ("Flathead Bank"), a Montana-based bank wholly owned by Flathead Holding Company. With total assets of \$231,574 as of December 31, 2015, Flathead Bank operates seven branches in western and northwestern Montana. Upon closing of the transaction, which is expected to occur during the third quarter of 2016, all Flathead Bank branches will become branches of First Interstate Bank. Pursuant to the Purchase Agreement, First Interstate Bank will pay cash consideration of approximately \$34,237 for the stock, subject to certain financial performance and other adjustments, the amount of which will be determined prior to the closing date of the transaction.

Absarokee Bancorporation, Inc. On July 24, 2015, the Company acquired all of the outstanding stock of Absarokee Bancorporation, Inc. ("Absarokee"), a Montana-based bank holding company that operated one subsidiary bank, United Bank. The Company merged United Bank with and into First Interstate Bank immediately subsequent to the acquisition. During March 2016, the Company completed its review of Absarokee's tax items and finalized the fair value of the acquired deferred tax asset. Finalization of provisional estimates resulted in a \$42 decrease in goodwill.

## (3) Investment Securities

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

| June 30, 2016                           | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| Available-for-Sale:                     |                   |                              |                               |                            |
| U.S. Treasury notes                     | \$3,909           | \$ 44                        | \$ —                          | \$3,953                    |
| Obligations of U.S. government agencies | 450,544           | 2,882                        | (21                           | ) 453,405                  |
|   | 1,022,462         | 22,252                       | (117                          | ) 1,044,597                |

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U.S. agency residential mortgage-backed securities & collateralized mortgage obligations

Private mortgage-backed securities

Other investments

Total

|             |           |         |   |             |
|-------------|-----------|---------|---|-------------|
| 136         | 1         | (2      | ) | 135         |
| 3,450       | 41        | —       |   | 3,491       |
| \$1,480,501 | \$ 25,220 | \$ (140 | ) | \$1,505,581 |

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands, except share and per share data)

| June 30, 2016   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| Held-to-Maturity:   |                   |                              |                               |                            |
| State, county and municipal securities  | \$ 164,334        | \$ 7,024                     | \$ (1 )                       | \$ 171,357                 |
| Corporate securities  | 51,262            | 580                          | —                             | 51,842                     |
| Obligations of U.S. government agencies   | 19,737            | 483                          | —                             | 20,220                     |
| U.S. agency residential mortgage-backed securities &<br>collateralized mortgage obligations | 320,620           | 15,925                       | (5,777 )                      | 330,768                    |
| Other investments   | 294               | 1                            | —                             | 295                        |
| Total   | \$ 556,247        | \$ 24,013                    | \$ (5,778 )                   | \$ 574,482                 |
|   |                   |                              |                               |                            |
| December 31, 2015   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Available-for-Sale:   |                   |                              |                               |                            |
| U.S. Treasury notes   |                   | \$ 3,912                     | \$ 3                          | \$ (4 ) \$ 3,911           |
| Obligations of U.S. government agencies   |                   | 521,079                      | 712                           | (1,610 ) 520,181           |
| U.S. agency residential mortgage-backed securities & collateralized<br>mortgage obligations |                   | 921,699                      | 9,448                         | (2,101 ) 929,046           |
| Private mortgage-backed securities  |                   | 156                          | 1                             | (1 ) 156                   |
| Other investments   |                   | 3,550                        | 5                             | (9 ) 3,546                 |
| Total   |                   | \$ 1,450,396                 | \$ 10,169                     | \$ (3,725 ) \$ 1,456,840   |
|   |                   |                              |                               |                            |
| December 31, 2015   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Held-to-Maturity:   |                   |                              |                               |                            |
| State, county and municipal securities  |                   | \$ 173,785                   | \$ 5,103                      | \$ (227 ) \$ 178,661       |
| Corporate securities  |                   | 50,046                       | 64                            | (220 ) 49,890              |
| Obligations of U.S. government agencies   |                   | 19,738                       | —                             | (102 ) 19,636              |
| U.S. agency residential mortgage-backed securities & collateralized<br>mortgage obligations |                   | 356,742                      | 7,686                         | (5,420 ) 359,008           |
| Other investments   |                   | 354                          | 1                             | — 355                      |
| Total   |                   | \$ 600,665                   | \$ 12,854                     | \$ (5,969 ) \$ 607,550     |

Gross realized gains and losses from the disposition of investment securities are summarized in the following table:

|                       | Three<br>Months<br>Ended<br>June 30, |       | Six Months<br>Ended June<br>30, |       |
|-----------------------|--------------------------------------|-------|---------------------------------|-------|
|                       | 2016                                 | 2015  | 2016                            | 2015  |
| Gross realized gains  | \$ 108                               | \$ 46 | \$ 165                          | \$ 52 |
| Gross realized losses | —                                    | —     | (78 )                           | —     |

On October 30, 2015, the Company transferred available-for-sale U.S. agency residential mortgage-backed securities and collateralized mortgage obligations with amortized costs and fair values of \$100,343 and \$100,140, respectively, into the held-to-maturity category. Unrealized net losses of \$203 included in accumulated other comprehensive income at the time of the transfer are being amortized to yield over the remaining expected lives of the transferred securities of 4 years.

On June 27, 2014, the Company transferred available-for-sale U.S. agency residential mortgage-backed securities and collateralized mortgage obligations with amortized costs and fair values of \$396,640 and \$388,808, respectively, into the held-to-maturity category. Unrealized net losses of \$7,832 at the time of the transfer are being amortized to yield over the remaining expected lives of the transferred securities of 4.3 years.

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The following tables show 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 June 30, 2016 and December 31, 2015:

|  | Less than 12 Months |                         | 12 Months or More |                         | Total      |                         |
|--|---------------------|-------------------------|-------------------|-------------------------|------------|-------------------------|
|  | Fair Value          | Gross Unrealized Losses | Fair Value        | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| June 30, 2016  |                     |                         |                   |                         |            |                         |
| Available-for-Sale:  |                     |                         |                   |                         |            |                         |
| Obligations of U.S. government agencies  | \$—                 | \$ —                    | \$10,477          | \$(21)                  | \$10,477   | \$(21)                  |
| U.S. agency residential mortgage-backed securities & collateralized mortgage obligations | 11,097              | (41)                    | 18,609            | (76)                    | 29,706     | (117)                   |
| Private mortgage-backed securities   | —                   | —                       | 54                | (2)                     | 54         | (2)                     |
| Total  | \$11,097            | \$(41)                  | \$29,140          | \$(99)                  | \$40,237   | \$(140)                 |
| June 30, 2016  |                     |                         |                   |                         |            |                         |
| Held-to-Maturity:  |                     |                         |                   |                         |            |                         |
| State, county and municipal securities   | \$625               | \$—                     | \$2,233           | \$(1)                   | \$2,858    | \$(1)                   |
| U.S. agency residential mortgage-backed securities & collateralized mortgage obligations | 5,030               | (2,631)                 | 20,683            | (3,146)                 | 25,713     | (5,777)                 |
| Total  | \$5,655             | \$(2,631)               | \$22,916          | \$(3,147)               | \$28,571   | \$(5,778)               |
| December 31, 2015  |                     |                         |                   |                         |            |                         |
| Available-for-Sale:  |                     |                         |                   |                         |            |                         |
| U.S. Treasury notes  | \$2,092             | \$(4)                   | \$—               | \$—                     | \$2,092    | \$(4)                   |
| Obligations of U.S. government agencies  | 209,631             | (1,077)                 | 54,619            | (533)                   | 264,250    | (1,610)                 |
| U.S. agency residential mortgage-backed securities & collateralized mortgage obligations | 343,875             | (1,577)                 | 28,010            | (524)                   | 371,885    | (2,101)                 |
| Private mortgage-backed securities   | —                   | —                       | 61                | (1)                     | 61         | (1)                     |
| Other investments  | 1,225               | (9)                     | —                 | —                       | 1,225      | (9)                     |
| Total  | \$556,823           | \$(2,667)               | \$82,690          | \$(1,058)               | \$639,513  | \$(3,725)               |
| December 31, 2015  |                     |                         |                   |                         |            |                         |
| Held-to-Maturity:  |                     |                         |                   |                         |            |                         |
| State, county and municipal securities   | \$10,182            | \$(39)                  | \$9,476           | \$(188)                 | \$19,658   | \$(227)                 |

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|  |           |          |   |          |          |        |           |          |   |
|--|-----------|----------|---|----------|----------|--------|-----------|----------|---|
| Obligations of U.S. government agencies  | 19,738    | (102     | ) | —        | —        | 19,738 | (102      | )        |   |
| U.S. agency residential mortgage-backed securities & collateralized mortgage obligations | 67,295    | (4,288   | ) | 69,539   | (1,132   | )      | 136,834   | (5,420   | ) |
| Corporate securities   | 31,135    | (220     | ) | —        | —        | 31,135 | (220      | )        |   |
| Total  | \$128,350 | \$(4,649 | ) | \$79,015 | \$(1,320 | )      | \$207,365 | \$(5,969 | ) |

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The investment portfolio is evaluated quarterly for other-than-temporary declines in the market value of each individual investment security. The Company had 55 and 198 individual investment securities that were in an unrealized loss position as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, 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, 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 securities before a recovery in cost. No impairment losses were recorded during three or six months ended June 30, 2016 and 2015.

Maturities of investment securities at June 30, 2016 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 |
| June 30, 2016                         |                    |                      |                  |                      |
| Within one year                       | \$352,031          | \$358,337            | \$90,746         | \$94,029             |
| After one year but within five years  | 1,049,286          | 1,066,900            | 311,641          | 319,471              |
| After five years but within ten years | 58,599             | 59,317               | 128,607          | 134,596              |
| After ten years                       | 20,585             | 21,027               | 25,253           | 26,386               |
| Total                                 | \$1,480,501        | \$1,505,581          | \$556,247        | \$574,482            |

As of June 30, 2016, the Company had investment securities callable within one year with amortized costs and estimated fair values of \$231,957 and \$232,619, respectively. These investment securities are primarily included in the after one year but within five years category in the table above. As of June 30, 2016, the Company had no callable structured notes.

## (4)Loans

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

|                                | June 30,<br>2016 | December 31,<br>2015 |
|--------------------------------|------------------|----------------------|
| Real estate loans:             |                  |                      |
| Commercial                     | \$1,816,813      | \$1,793,258          |
| Construction:                  |                  |                      |
| Land acquisition & development | 218,650          | 224,066              |
| Residential                    | 113,944          | 111,763              |
| Commercial                     | 117,643          | 94,890               |
| Total construction loans       | 450,237          | 430,719              |
| Residential                    | 1,030,593        | 1,032,851            |
| Agricultural                   | 166,872          | 156,234              |
| Total real estate loans        | 3,464,515        | 3,413,062            |
| Consumer:                      |                  |                      |
| Indirect consumer              | 687,768          | 622,529              |
| Other consumer                 | 153,185          | 153,717              |

|                              |             |              |
|------------------------------|-------------|--------------|
| Credit card                  | 66,221      | 68,107       |
| Total consumer loans         | 907,174     | 844,353      |
| Commercial                   | 824,962     | 792,416      |
| Agricultural                 | 139,892     | 142,151      |
| Other, including overdrafts  | 3,646       | 1,339        |
| Loans held for investment    | 5,340,189   | 5,193,321    |
| Mortgage loans held for sale | 73,053      | 52,875       |
| Total loans                  | \$5,413,242 | \$ 5,246,196 |

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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 dates indicated:

|                                    | 30 - 59  |         |         | 60 - 89  |             |          | > 90        |      |       | Total | Current | Non-accrual | Total |
|------------------------------------|----------|---------|---------|----------|-------------|----------|-------------|------|-------|-------|---------|-------------|-------|
|                                    | Days     | Days    | Days    | Days     | Days        | Days     | Days        | Days | Loans |       |         |             |       |
| As of June 30, 2016                | Past     | Past    | Past    | Past     | Past        | Past     | Past        | Past | Loans | Loans | Loans   |             |       |
|                                    | Due      | Due     | Due     | Due      | Due         | Due      | Due         | Due  |       |       |         |             |       |
| Real estate                        |          |         |         |          |             |          |             |      |       |       |         |             |       |
| Commercial                         | \$2,707  | \$336   | \$287   | \$3,330  | \$1,784,134 | \$29,349 | \$1,816,813 |      |       |       |         |             |       |
| Construction:                      |          |         |         |          |             |          |             |      |       |       |         |             |       |
| Land acquisition & development     | 305      | 205     | 69      | 579      | 212,210     | 5,861    | 218,650     |      |       |       |         |             |       |
| Residential                        | 619      | —       | —       | 619      | 113,053     | 272      | 113,944     |      |       |       |         |             |       |
| Commercial                         | —        | —       | —       | —        | 115,975     | 1,668    | 117,643     |      |       |       |         |             |       |
| Total construction loans           | 924      | 205     | 69      | 1,198    | 441,238     | 7,801    | 450,237     |      |       |       |         |             |       |
| Residential                        | 4,526    | 981     | 2,138   | 7,645    | 1,020,251   | 2,697    | 1,030,593   |      |       |       |         |             |       |
| Agricultural                       | 224      | 103     | 112     | 439      | 160,970     | 5,463    | 166,872     |      |       |       |         |             |       |
| Total real estate loans            | 8,381    | 1,625   | 2,606   | 12,612   | 3,406,593   | 45,310   | 3,464,515   |      |       |       |         |             |       |
| Consumer:                          |          |         |         |          |             |          |             |      |       |       |         |             |       |
| Indirect consumer                  | 5,503    | 1,823   | 304     | 7,630    | 679,558     | 580      | 687,768     |      |       |       |         |             |       |
| Other consumer                     | 823      | 170     | 35      | 1,028    | 151,764     | 393      | 153,185     |      |       |       |         |             |       |
| Credit card                        | 488      | 340     | 509     | 1,337    | 64,884      | —        | 66,221      |      |       |       |         |             |       |
| Total consumer loans               | 6,814    | 2,333   | 848     | 9,995    | 896,206     | 973      | 907,174     |      |       |       |         |             |       |
| Commercial                         | 4,268    | 806     | 592     | 5,666    | 792,012     | 27,284   | 824,962     |      |       |       |         |             |       |
| Agricultural                       | 578      | 243     | 97      | 918      | 138,230     | 744      | 139,892     |      |       |       |         |             |       |
| Other, including overdrafts        | —        | —       | 311     | 311      | 3,335       | —        | 3,646       |      |       |       |         |             |       |
| Loans held for investment          | 20,041   | 5,007   | 4,454   | 29,502   | 5,236,376   | 74,311   | 5,340,189   |      |       |       |         |             |       |
| Mortgage loans originated for sale | —        | —       | —       | —        | 73,053      | —        | 73,053      |      |       |       |         |             |       |
| Total loans                        | \$20,041 | \$5,007 | \$4,454 | \$29,502 | \$5,309,429 | \$74,311 | \$5,413,242 |      |       |       |         |             |       |

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|                                    |                                |                                |                             | Total<br>Loans<br>30 or<br>More | Current<br>Loans | Non-accrual<br>Loans | Total<br>Loans |
|------------------------------------|--------------------------------|--------------------------------|-----------------------------|---------------------------------|------------------|----------------------|----------------|
|                                    | 30 - 59<br>Days<br>Past<br>Due | 60 - 89<br>Days<br>Past<br>Due | > 90<br>Days<br>Past<br>Due | Days<br>Past<br>Due             |                  |                      |                |
| As of December 31, 2015            |                                |                                |                             |                                 |                  |                      |                |
| Real estate                        |                                |                                |                             |                                 |                  |                      |                |
| Commercial                         | \$6,051                        | \$724                          | \$418                       | \$7,193                         | \$1,762,294      | \$23,771             | \$1,793,258    |
| Construction:                      |                                |                                |                             |                                 |                  |                      |                |
| Land acquisition & development     | 3,190                          | 163                            | 1,325                       | 4,678                           | 212,757          | 6,631                | 224,066        |
| Residential                        | 1,288                          | —                              | —                           | 1,288                           | 110,182          | 293                  | 111,763        |
| Commercial                         | 3,232                          | —                              | —                           | 3,232                           | 90,703           | 955                  | 94,890         |
| Total construction loans           | 7,710                          | 163                            | 1,325                       | 9,198                           | 413,642          | 7,879                | 430,719        |
| Residential                        | 5,991                          | 1,196                          | 2,063                       | 9,250                           | 1,018,359        | 5,242                | 1,032,851      |
| Agricultural                       | 176                            | 17                             | —                           | 193                             | 150,686          | 5,355                | 156,234        |
| Total real estate loans            | 19,928                         | 2,100                          | 3,806                       | 25,834                          | 3,344,981        | 42,247               | 3,413,062      |
| Consumer:                          |                                |                                |                             |                                 |                  |                      |                |
| Indirect consumer                  | 6,675                          | 1,089                          | 210                         | 7,974                           | 614,029          | 526                  | 622,529        |
| Other consumer                     | 1,312                          | 331                            | 34                          | 1,677                           | 151,381          | 659                  | 153,717        |
| Credit card                        | 533                            | 317                            | 477                         | 1,327                           | 66,768           | 12                   | 68,107         |
| Total consumer loans               | 8,520                          | 1,737                          | 721                         | 10,978                          | 832,178          | 1,197                | 844,353        |
| Commercial                         | 8,493                          | 1,060                          | 699                         | 10,252                          | 759,851          | 22,313               | 792,416        |
| Agricultural                       | 879                            | 152                            | 62                          | 1,093                           | 140,430          | 628                  | 142,151        |
| Other, including overdrafts        | —                              | —                              | 314                         | 314                             | 1,025            | —                    | 1,339          |
| Loans held for investment          | 37,820                         | 5,049                          | 5,602                       | 48,471                          | 5,078,465        | 66,385               | 5,193,321      |
| Mortgage loans originated for sale | —                              | —                              | —                           | —                               | 52,875           | —                    | 52,875         |
| Total loans                        | \$37,820                       | \$5,049                        | \$5,602                     | \$48,471                        | \$5,131,340      | \$66,385             | \$5,246,196    |

Loans from business combinations included in the tables above include certain loans that had evidence of deterioration in credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected.

The following table displays the outstanding unpaid principal balance, accrued interest receivable and accrual status of loans acquired with credit impairment as of June 30, 2016 and 2015:

| As of June 30,          | 2016     | 2015     |
|-------------------------|----------|----------|
| Outstanding balance     | \$31,979 | \$35,555 |
| Carrying value          |          |          |
| Loans on accrual status | 20,140   | 22,293   |
| Total carrying value    | \$20,140 | \$22,293 |





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The following table summarizes changes in the accretable yield for loans acquired credit impaired for the three and six months ended June 30, 2016 and 2015:

|  | Three Months   |         | Six Months     |          |
|--|----------------|---------|----------------|----------|
|  | Ended June 30, |         | Ended June 30, |          |
|  | 2016           | 2015    | 2016           | 2015     |
| Beginning balance                                | \$6,678        | \$6,980 | \$6,713        | \$5,781  |
| Accretion income                                 | (615 )         | (807 )  | (1,229 )       | (1,355 ) |
| Reductions due to exit events                    | (158 )         | —       | (305 )         | (396 )   |
| Reclassifications from nonaccretable differences | —              | 1,309   | 726            | 3,452    |
| Ending balance                                   | \$5,905        | \$7,482 | \$5,905        | \$7,482  |

Acquired loans that met the criteria for nonaccrual of interest prior to acquisition were considered performing upon acquisition. If interest on non-accrual loans had been accrued, such income would have been approximately \$821 and \$875 for the three months ended June 30, 2016 and 2015, respectively, and approximately \$1,690 and \$1,613 for the six months ended June 30, 2016 and 2015 respectively.

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

| As of June 30, 2016 | Unpaid Total Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Investment | Related Allowance |
|---------------------|--------------------------------|---------------------------------------|------------------------------------|---------------------------|-------------------|
| Real estate:        |                                |                                       |                                    |                           |                   |
| Commercial          | \$ 57,833                      | \$ 22,624                             | \$                                 |                           |                   |