

FIRST INTERSTATE BANCSYSTEM INC  
Form 10-K  
March 01, 2016

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, 2015

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 \$668,057,399.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of January 31, 2016:

Class A common stock	21,511,142
Class B common sock	23,729,282

Documents Incorporated by Reference

The registrant intends to file a definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 25, 2016. 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, 2015, we had consolidated assets of \$8.7 billion, deposits of \$7.1 billion, loans of \$5.2 billion and total stockholders’ equity of \$950 million. We currently operate 79 banking offices, including detached drive-up facilities, in 45 communities located in Montana, Wyoming and South Dakota. We also offer internet and mobile banking services. Through our wholly-owned subsidiary, First Interstate Bank, or FIB, 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.

#### Recent Acquisitions

On July 24, 2015, we acquired all of the outstanding stock of Absarokee Bancorporation, Inc., a Montana-based bank holding company operating one wholly-owned subsidiary bank, United Bank, with branches located in three Montana communities adjacent to the Company's existing market areas. United Bank was merged with FIB immediately subsequent to the acquisition. We paid cash consideration for the acquisition of \$7.2 million. As of the acquisition date, Absarokee Bancorporation, Inc. had total assets of \$73 million, loans of \$38 million and deposits of \$64 million.

On July 31, 2014, we acquired all of the outstanding stock of Mountain West Financial Corp., a Montana-based bank holding company operating one wholly-owned subsidiary bank, Mountain West Bank, NA, with branches located in five of our current market areas in Montana. Mountain West Bank, NA was merged with FIB on October 17, 2014.

Consideration for the acquisition of \$74.5 million consisted of cash of \$38.5 million and the issuance of 1,378,230 shares of our Class A common stock valued at \$26.10 per share, the closing price of the shares as quoted on the NASDAQ stock market on the acquisition date. As of the acquisition date, Mountain West Financial Corp. had total assets of \$612 million, loans of \$360 million and deposits of \$515 million.

For additional information regarding these acquisitions, see “Managements’ Discussion and Analysis — Recent Trends and Developments” included in Part II, Item 7 and “Notes to Consolidated Financial Statements — Acquisitions” and “Notes to Consolidated Financial Statements — Capital Stock and Dividend Restrictions” included in Part IV, Item 15.

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### 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 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 that reset 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 loan officer lending limits are approved annually by branch or market management and are based on the lending experience of each individual loan officer. Branch and market lending limits and aggregate lending relationships in excess of established limits, ranging from \$10 million to \$15 million depending on the risk characteristics of the relationship, 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, 2015, the estimated fair value of trust assets held in a fiduciary or agent capacity was \$4.5 billion.

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### 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, facilities management, technology, risk management, compliance and other support services.

### Competition

There is significant competition among commercial banks in our market areas. We also compete with other providers of financial services, such as savings and loan associations, credit unions, financial technology companies, internet banks, 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. Some of our competitors have greater resources and, as such, may have higher lending limits and may offer other services that we do not provide. 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.

### Employees

We recognize quality, engaged employees are critical to our ability to serve our customers and to the success of our company. We strive to be the employer of choice in the markets we serve. At December 31, 2015, we employed 1,742 full-time equivalent employees, none of whom are represented by a collective bargaining agreement. We 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. Descriptions of statutory and regulatory provisions and requirements do not purport to be complete and are qualified in their entirety by reference to those provisions.

As a financial and bank holding company, we are subject to regulation under the Bank Holding Company Act of 1956, as amended, 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. Although the Bank is not directly supervised by the Consumer Financial Protection Bureau, or CFPB, certain of the Bank's consumer banking activities are also subject to CFPB regulations.

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.

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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. As the regulatory framework for bank holding companies and banks continues to grow and become more complex, the cost of complying with regulatory requirements continues to increase. In addition, if our consolidated assets were to exceed \$10 billion, we would become subject to additional statutory and regulatory requirements and would incur additional compliance costs. As of December 31, 2015, our consolidated assets were \$8.7 billion.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enacts other significant changes in federal statutes governing banks and bank holding companies generally as well as other entities. Although many 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, our principal federal regulator. 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

We are 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, we are required to serve as a source of financial and managerial 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.

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. Branch offices may not be established outside of a bank's home state primarily for the purpose of deposit production which is determined based on a state-by-state test. The prohibition and regulatory test may limit the Company's ability to establish de novo branches in states other than Montana.

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, whether located in Montana or otherwise, 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. As of December 31, 2015, the Bank controlled approximately 17% of the total deposits of all insured depository institutions located in Montana. The state limitation may limit our ability to directly or indirectly acquire additional banks located in Montana.

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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 conduct periodic onsite and offsite inspections and credit reviews throughout the year. 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 and subject to certain limitations and requirements, 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 operating expenses 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.

The capital buffer rules adopted by the federal banking regulators in accordance with the Basel Accords impose further limitations on the Bank’s ability to pay dividends. In general, the Bank’s ability to pay dividends is limited under the capital buffer rules unless the Bank’s common equity conservation buffer exceeds the minimum required capital ratio by at least 2.5 percent of risk-weighted assets.

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.”

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.

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The Federal Reserve has issued policy statements and other guidance that suggests limitations on the dividends a bank holding company may pay. The guidance indicates that, in the view of the Federal Reserve, a bank holding company should not pay dividends per share that exceeds the earnings per share over the prior four fiscal quarters nor should a bank holding company pay dividends unless the company's net income is sufficient to cover the dividend to be paid and the expected rate of earnings retention necessary to meet the company's capital needs.

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 over 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 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 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.

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.

The federal banking regulators, including the Federal Reserve Board, adopted significant revisions to the regulatory capital requirements that apply to the Bank beginning on January 1, 2015, with some requirements phasing in between January 1, 2015 and January 1, 2019. Among other things, the revised capital requirements modify previous minimum ratios requirements for tier 1 capital and total capital to risk-weighted assets. In addition, the revised capital requirements impose both a new common equity tier 1 capital ratio requirement and a capital buffer requirement both measured against risk-weighted assets. When completely phased in, the minimum capital requirements plus the capital buffer requirement will exceed the regulatory 'well-capitalized' thresholds. The regulations also implement changes to

the definition of capital and require deductions from capital for regulatory purposes be made from common equity tier 1 capital.

Consistent with prior law, if the Bank fails to meet the regulatory capital requirements, its business activities may be limited and the amount of distributions it may pay to us may be reduced or eliminated. In addition, if the Bank or we fail to meet the regulatory capital requirements, the amount of distributions we may pay to our shareholders, and bonuses to executive officers, may be limited.

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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 three tiers. These tiers are:

**Common Equity Tier 1.** Common equity tier 1 capital includes common stock plus related surplus, retained earnings plus limited amounts of minority interests in the form of common stock and is reduced by substantially all of the regulatory deductions including items such as goodwill and other intangibles and certain deferred tax assets.

**Core Capital (Tier 1).** Tier 1 capital includes common equity, noncumulative perpetual preferred stock meeting eligibility requirements, limited minority interests in equity accounts of consolidated subsidiaries and portions of grandfathered cumulative preferred stock and grandfathered trust preferred securities, less both goodwill and other intangible assets and certain deferred tax assets, among other regulatory deductions.

**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 and otherwise meeting regulatory requirements.

The Dodd-Frank Act provisions and the new regulatory capital requirements 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 existing hybrid capital instruments are not expected to apply to us in the immediate future.

We 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. In addition, we are required to maintain a minimum common equity tier 1 capital ratio to risk-weighted assets of 4.5% and, when fully phased in, a capital conservation buffer of 2.5% of risk weighted assets. For a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action in effect on January 1, 2016, its minimum common equity tier 1 capital, tier 1 and total capital ratios must be at least 4.5%, 6.0% and 8.0% on a risk-adjusted basis, respectively. As of January 1, 2016 the required capital conservation buffer is 0.625% and will continue to phase in at 0.625% each January 1st until reaching 2.5% on January 1, 2019. We currently meet the 'well-capitalized' ratio requirements on all measures including requirements to be phased in through January 1, 2019. However, there can be no assurance that we will meet the requirements in the future.

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). All 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.



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 common equity tier 1 capital ratio, total capital ratio, the tier 1 capital ratio and the leverage ratio.

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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.

In 2015, the Federal Reserve issued several new rules and proposed rules applicable to advanced approaches companies, certain complex bank holding companies and holding companies with consolidated assets in excess of \$10 billion. Because the Company has consolidated assets of less than \$10 billion and has not been designated a complex holding company, the recently issued rules do not generally apply to us.

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 the 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 an assessment on the institution's stock.

## 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.

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### 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. 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. Currently, the Bank meets the 'well-capitalized' standards imposed by the FDIC in 2015 for purposes of determining FDIC assessments.

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.

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.

### 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 of the extension of credit to an individual.

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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.”

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.

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. While we do not currently have \$10 billion or more in total consolidated assets, it is reasonable to assume that our total assets will exceed \$10 billion in the future, based on our historic organic growth rates and our potential to grow through acquisitions. Based on our 2015 debit card transaction volume, we estimate interchange fee caps prescribed under the Dodd-Frank Act for issuers with consolidated assets in excess of \$10 billion would have reduced our debit card interchange fee income by approximately \$8 million.

Federal consumer protection laws have been expanded by the Dodd-Frank Act, pursuant to which the CFPB was created with authority to regulate consumer financial products and services and to implement and enforce federal consumer financial laws. Although the CFPB is accorded examination and enforcement authority, the CFPB'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 assessed 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.

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### 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.

### 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](http://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](http://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



Declining business and economic conditions could materially and adversely affect us.

Since June 2009, the United States economy has been recovering from the most severe recession and financial crisis since the Great Depression. There have been sizable improvements in the United States labor market, personal consumption and industrial production; nevertheless, the pace of economic recovery has been uneven and slow. Financial markets have improved since the depths of the crisis but are still unsettled and volatile. There is continued concern about the U.S. economic outlook.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets where we operate in Montana, Wyoming and South Dakota and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong

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business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters; or a combination of these or other factors. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and savings habits. Such conditions could adversely affect the credit quality of our loans and our business, financial condition and results of operations.

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, repossessions and losses, which would have an adverse impact on our business, financial condition, results of operations and prospects.

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

Our customers are located predominantly in Montana, Wyoming and South Dakota. Because of the concentration of loans and deposits in these states, existing or future adverse economic conditions in Montana, Wyoming or South Dakota could cause us to experience higher rates of loss and delinquency on our loans than if the loans were more geographically diversified. Adverse economic conditions, including inflation, recession and unemployment and other factors, such as regulatory or business developments, natural disasters, 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 be adversely affected by declining oil and gas prices.

Oil and gas drilling and production in Wyoming and in the Bakken Formation in Montana and North Dakota have been important contributors to our region's economic growth over the years. During 2015, decreased market oil prices compressed margins for oil producers as well as oilfield service providers, energy equipment manufacturers and transportation suppliers, among others. As of December 31, 2015, our direct exposure to the oil and gas industry was approximately \$75 million in outstanding loans, including approximately \$50 million related to drilling and extraction activity and approximately \$25 million advanced to oil and gas service companies. As of December 31, 2015, we also had commitments to lend an additional \$24 million to oil and gas borrowers. These borrowers may be significantly affected by volatility in oil and gas prices and further declines in the level of drilling and production activity. A prolonged period of low oil and gas prices or other events that result in a decline in drilling activity could have a negative impact on the economies of our market areas and on our customers. Additionally, adverse developments in the energy sector could have spillover effects on the broader economies of our market areas, including commercial and residential real estate values and the general level of economic activity. The State of Wyoming derives a significant portion of its operating budget from energy extraction and related industries. As such, reductions in oil and gas related revenues may have additional negative economic implications for the State of Wyoming.

We are carefully monitoring the impact of the continuing significant decline and volatility in oil and gas prices on our loan portfolio. As of December 31, 2015, 36.4% of our outstanding oil and gas loans were criticized. There is no

assurance that our business, financial condition, results of operations and cash flows will not be adversely impacted by increases in non-performing oil and gas loans, or by the direct and indirect effects of current and future conditions in the energy industry.

We are subject to lending risk.

There are inherent risks associated with our lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where we operate as well as those across Montana, Wyoming, South Dakota and the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans.

We are also subject to various laws and regulations that affect our lending activities. Failure to comply with applicable laws and regulations could subject us to regulatory enforcement action that could result in the assessment of significant civil money penalties against us.

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At December 31, 2015, we had \$2.6 billion of commercial loans, including \$1.8 billion of commercial real estate loans, representing approximately 49% of our total loan portfolio. These 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. 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 business, financial condition and results of operations.

In addition, at December 31, 2015, we had \$1.6 billion of agricultural, construction, residential and other real estate loans, representing approximately 31% of our total loan portfolio. Deterioration in economic conditions or in the real estate market could result in increased delinquencies and foreclosures and could have an adverse effect on the collateral value for many of these loans and on the repayment ability of many of our borrowers. Deterioration in economic conditions or in the real estate market could reduce the number of loans we make to businesses in the construction and real estate industry, which could negatively impact our interest income and results of operations. 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.

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, 2015, we had goodwill of \$205 million, or 22% 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.”

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 trade-off. Additionally, the availability of internet banking products has increased the mobility of customer deposits. If customers move money out of bank deposits and into other investments or internet banking products, 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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We will become subject to additional regulatory requirements if our total assets exceed \$10 billion, which could have an adverse effect on our financial condition or results of operations.

Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least \$50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least \$10 billion in total consolidated assets.

Following the fourth consecutive quarter (and any applicable phase-in period) where our or the Bank's total consolidated assets equal or exceed \$10 billion, we or the Bank, as applicable, will, among other requirements:

- be required to perform annual stress tests;
- be required to establish a dedicated risk committee of our board of directors responsible for overseeing our enterprise-risk management policies, commensurate with our capital structure, risk profile, complexity, size and other risk-related factors, and including as a member at least one risk management expert;
- calculate our FDIC deposits assessment base using a performance score and loss-severity score system;
- be subject to more frequent regulatory examinations; and,
- be subject to examination for compliance with federal consumer protection laws primarily by the CFPB.

While we do not currently have \$10 billion or more in total consolidated assets, we have begun analyzing these requirements to ensure we are prepared to comply with the rules when and if they become applicable. It is reasonable to assume that our total assets will exceed \$10 billion in the future, based on our historic organic growth rates and our potential to grow through acquisitions.

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 securities and collateralized mortgage obligations portfolios. 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 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, other than an employment agreement with our president and chief executive officer, Kevin P. Riley. The unanticipated loss or unavailability of key employees could harm our ability to operate our business or execute our business strategy. We may not be successful in retaining these key employees or finding and integrating suitable successors in the event of their loss or unavailability.

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We may be unable to successfully integrate or profitably operate acquired organizations, 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 employee 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 could divert 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 may not be able to attract and retain qualified employees to operate our business effectively.

As a result of low unemployment rates in Montana, Wyoming, South Dakota and the surrounding region, there is substantial competition for qualified personnel in our markets. It may be difficult for us 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 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 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 in July 2010.

Other changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies, or supervisory guidance, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties and/or reputation damage. In this regard, government authorities, including the bank regulatory agencies, often pursue aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.



We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures or interruptions 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 experience 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 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, cash flows and prospects.

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We are exposed to risks related to cyber-security.

Our computer systems and network infrastructure could be susceptible to cyber-attacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses, malware, cyber-attacks and other means.

In addition, we provide our customers with the ability to bank remotely, including online, mobile 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.

Despite efforts to ensure the integrity of our systems, cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks, nor may we be able to implement guaranteed preventive measures against such security breaches. The techniques used by cyber criminals change frequently, may not be recognized until launched and can originate from a wide variety of sources, including outside groups such as external service providers. These risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expand our internal usage of web-based products and applications.

Further, targeted social engineering attacks may be sophisticated and difficult to prevent and our employees, customers or other users of our systems may be fraudulently induced to disclose sensitive information, allowing cyber criminals to gain access to our data or data of our customers.

A successful penetration or circumvention of system security could cause us serious negative consequences, including significant disruption of operations, misappropriation of confidential information, or damage to our computers or systems or those of our customers and counterparties. A successful security breach could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on us.

The resolution of litigation, if unfavorable, could have a material adverse effect on our results of operations for a particular period.

We face legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remains high. Legal liability against us could have material adverse financial effects or cause harm to our reputation, which in turn could adversely impact our business prospects.

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.

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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.

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 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 larger 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 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.

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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 may be adversely affected by the 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.

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 enables financial institutions to better serve customers and to perform more efficiently. 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.

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 without the prior consents of the Montana and federal banking regulators.

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.

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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.

### 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 of directors, or 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 may make and adopt capital management decisions and policies that could adversely impact the amount of dividends paid to our stockholders.

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.

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;
- 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 79% 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.

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In addition, because these holders have the ability to elect all of our directors they are 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 the interests of all stockholders. 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 limits stockholders' ability to influence corporate matters. As a result, the market price of our Class A common stock could be adversely affected.

“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.

Our articles of incorporation provide that our 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.

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 equity compensation 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.

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.

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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 make 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 share 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.

### 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 limited liability company in which the Bank owns a 50% interest. We lease approximately 104,431 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 an additional 78 locations in Montana, Wyoming and South Dakota, of which 13 properties are leased from independent third parties and 65 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.

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At December 31, 2015, we had issued and outstanding 21,698,594 shares of Class A common stock and 23,729,631 shares of Class B common stock. At December 31, 2015, we also had outstanding stock options to purchase an aggregate of 679,267 shares of our Class A common stock and 708,111 shares of our Class B common stock.

Members of the Scott family control in excess of 79% 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.

### 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.

### 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.

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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.

Other than in connection with dividends and distributions, subdivisions or combinations, the exercise of stock options for Class B shares 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, 2014	\$28.90	\$24.53
June 30, 2014	28.63	24.30
September 30, 2014	28.34	25.37
December 31, 2014	29.53	26.25
March 31, 2015	27.82	23.90
June 30, 2015	28.79	26.83
September 30, 2015	28.50	25.68
December 31, 2015	30.64	26.84

As of December 31, 2015, we had 707 record shareholders, including the Wealth Management division of FIB as trustee for 1,006,406 shares of Class A common stock held on behalf of 801 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 2014	\$0.16	\$7,035,389
Second quarter 2014	0.16	7,052,081
Third quarter 2014	0.16	7,262,359
Fourth quarter 2014	0.16	7,276,144



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First quarter 2015	0.20	9,114,216
Second quarter 2015	0.20	9,073,574
Third quarter 2015	0.20	9,071,305
Fourth quarter 2015	0.20	9,030,775

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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, 2015.

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information with respect to 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, 2015.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 2015	—	\$—	—	1,000,000
November 2015	—	—	—	1,000,000
December 2015	3,334	29.61	—	1,000,000
Total	3,334	\$29.61	—	1,000,000

(1) Stock repurchases were redemptions of vested restricted shares tendered in lieu of cash for payment of income tax withholding amounts by participants of the Company's 2006 Equity Compensation Plan.

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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	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
First Interstate BancSystem, Inc.	\$100.00	\$108.27	\$95.89	\$117.38	\$219.74	\$220.82	\$237.65
NASDAQ Composite	100.00	110.78	109.92	129.43	181.43	208.33	223.15
NASDAQ Bank	100.00	98.86	88.48	105.02	148.83	156.15	169.95

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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, 2015 and 2014, and the results of our operations for the fiscal years ended December 31, 2015, 2014 and 2013, 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, 2013, 2012 and 2011, and the results of our operations for the fiscal years ended December 31, 2012 and 2011, 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,	2015	2014	2013	2012	2011
Selected Balance Sheet Data:					
Net loans	\$5,169,379	\$4,823,243	\$4,259,514	\$4,123,401	\$4,073,968
Investment securities	2,057,505	2,287,110	2,151,543	2,203,481	2,169,645
Total assets	8,728,196	8,609,936	7,564,651	7,721,761	7,325,527
Deposits	7,088,937	7,006,212	6,133,750	6,240,411	5,826,971
Securities sold under repurchase agreements	510,635	502,250	457,437	505,785	516,243
Long-term debt	27,885	38,067	36,917	37,160	37,200
Preferred stock pending redemption (1)	—	—	—	50,000	—
Subordinated debentures held by subsidiary trusts	82,477	82,477	82,477	82,477	123,715
Preferred stockholders' equity (1)	—	—	—	—	50,000
Common stockholders' equity	950,493	908,924	801,581	751,186	721,020
Selected Income Statement Data:					
Interest income	\$282,423	\$267,067	\$257,662	\$273,900	\$292,883
Interest expense	18,060	18,606	20,695	30,114	42,031
Net interest income	264,363	248,461	236,967	243,786	250,852
Provision for loan losses	6,822	(6,622)	(6,125)	40,750	58,151
Net interest income after provision for loan losses	257,541	255,083	243,092	203,036	192,701
Non-interest income	120,929	111,401	111,679	114,861	91,872
Non-interest expense	248,013	236,869	222,069	229,635	218,412
Income before income taxes	130,457	129,615	132,702	88,262	66,161
Income tax expense	43,662	45,214	46,566	30,038	21,615
Net income	86,795	84,401	86,136	58,224	44,546
Preferred stock dividends	—	—	—	3,300	3,422
Net income available to common shareholders	\$86,795	\$84,401	\$86,136	\$54,924	\$41,124
Common Share Data:					
Earnings per share:					
Basic	\$1.92	\$1.89	\$1.98	\$1.28	\$0.96
Diluted	1.90	1.87	1.96	1.27	0.96
Dividends per share	0.80	0.64	0.41	0.61	0.45
Book value per share (2)	20.92	19.85	18.15	17.35	16.77
Tangible book value per share (3)	16.19	15.07	13.89	12.97	12.33
Weighted average shares outstanding:					
Basic	45,184,091	44,615,060	43,566,681	42,965,987	42,749,526
Diluted	45,646,418	45,210,561	44,044,602	43,092,978	42,847,196



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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,	2015	2014	2013	2012	2011	
<b>Financial Ratios:</b>						
Return on average assets	1.02	% 1.06	% 1.16	% 0.79	% 0.61	%
Return on average common equity	9.37	9.86	11.05	7.46	5.86	
Return on average tangible common equity (4)	12.23	12.88	14.59	10.07	8.06	
Average stockholders' equity to average assets	10.87	10.77	10.49	10.57	10.25	
Yield on average earning assets	3.70	3.75	3.84	4.10	4.43	
Cost of average interest bearing liabilities	0.31	0.34	0.40	0.58	0.78	
Interest rate spread	3.39	3.41	3.44	3.52	3.65	
Net interest margin (5)	3.46	3.49	3.54	3.66	3.80	
Efficiency ratio (6)	64.37	65.82	63.69	64.03	63.73	
Common stock dividend payout ratio (7)	41.65	33.83	20.71	47.66	46.88	
Loan to deposit ratio	74.01	69.90	70.84	67.69	71.85	
<b>Asset Quality Ratios</b>						
Non-performing loans to total loans (8)	1.37	% 1.32	% 2.22	% 2.61	% 4.87	%
Non-performing assets to total loans and other real estate owned (OREO) (9)	1.49	1.59	2.57	3.35	5.72	
Non-performing assets to total assets	0.90	0.91	1.48	1.85	3.30	
Allowance for loan losses to total loans	1.46	1.52	1.96	2.38	2.69	
Allowance for loan losses to non-performing loans	106.71	114.58	88.28	91.31	55.16	
Net charge-offs to average loans	0.08	0.10	0.21	1.26	1.54	
<b>Capital Ratios:</b>						
Tangible common equity to tangible assets (10)	8.64	% 8.22	% 8.32	% 7.46	% 7.43	%
Net tangible common equity to tangible assets (11)	9.35	8.94	9.14	8.26	8.28	
Tier 1 common capital to total risk weighted assets (12)	12.69	13.08	13.31	11.94	11.04	
Leverage ratio	10.12	9.61	10.08	8.81	9.84	
Tier 1 risk-based capital	13.99	14.52	14.93	13.60	14.55	
Total risk-based capital	15.36	16.15	16.75	15.59	16.54	

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 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) Return on average tangible common equity is a non-GAAP financial measure that management uses to evaluate our capital adequacy. For purposes of computing return on average tangible common equity, average tangible common equity equals average stockholders' equity less average goodwill, average core deposit intangibles and average other intangible assets (except mortgage servicing rights). Return on average tangible common equity is calculated as net income available to common shareholders divided by average tangible common equity, and its

most comparable GAAP financial measure is return on average common stockholders' equity. 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.

- (5) Net interest margin ratio is presented on a fully taxable equivalent, or FTE, basis.
- (6) Efficiency ratio represents non-interest expense, excluding loan loss provision, divided by the aggregate of net interest income and non-interest income.
- (7) Common stock dividend payout ratio represents dividends per common share divided by basic earnings per common share.
- (8) Non-performing loans include non-accrual loans and loans past due 90 days or more and still accruing interest.
- (9) Non-performing assets include non-accrual loans, loans past due 90 days or more and still accruing interest and OREO.

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- 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.
- (10) 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 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.
- (12)

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: return on average tangible common equity, tangible book value per share, tangible common equity to tangible assets and net tangible common equity to tangible assets. Return on average tangible equity is calculated as net income available to common shareholders divided by average tangible common stockholders' equity. 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.



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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,	2015	2014	2013	2012	2011	
Total common stockholders' equity (GAAP)	\$950,493	\$908,924	\$801,581	\$751,186	\$721,020	
Less goodwill and other intangible assets (excluding mortgage servicing rights)	215,119	218,870	188,214	189,637	191,065	
Tangible common stockholders' equity (Non-GAAP)	735,374	690,054	613,367	561,549	529,955	
Add deferred tax liability for deductible goodwill	60,499	60,499	60,499	60,499	60,499	
Net tangible common stockholders' equity (Non-GAAP)	\$795,873	\$750,553	\$673,866	\$622,048	\$590,454	
Total Assets (GAAP)	\$8,728,196	\$8,609,936	\$7,564,651	\$7,721,761	\$7,325,527	
Less goodwill and other intangible assets (excluding mortgage servicing rights)	215,119	218,870	188,214	189,637	191,065	
Tangible assets (Non-GAAP)	\$8,513,077	\$8,391,066	\$7,376,437	\$7,532,124	\$7,134,462	
Average Balances:						
Total common stockholders' equity (GAAP)	\$926,050	\$855,862	\$779,530	\$735,984	\$702,321	
Less goodwill and other intangible assets (excluding mortgage servicing rights)	216,494	200,740	188,954	190,381	191,823	
Average tangible common stockholders' equity (Non-GAAP)	\$709,556	\$655,122	\$590,576	\$545,603	\$510,498	
Common shares outstanding	45,428,225	45,788,415	44,155,063	43,290,323	42,981,174	
Net income available to common shareholders	\$86,795	\$84,401	\$86,136	\$54,924	\$41,124	
Book value per common share (GAAP)	\$20.92	\$19.85	\$18.15	\$17.35	\$16.77	
Tangible book value per common share (Non-GAAP)	16.19	15.07	13.89	12.97	12.33	
Tangible common equity to tangible assets (Non-GAAP)	8.64	%8.22	%8.32	%7.46	%7.43	%
Net tangible common equity to tangible assets (Non-GAAP)	9.35	8.94	9.14	8.26	8.28	
Return on average common tangible equity (Non-GAAP)	12.23	12.88	14.59	10.07	8.06	

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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:

- declining business and economic conditions;
- credit losses;
- adverse economic conditions affecting Montana, Wyoming and South Dakota;
- declining oil and gas prices;
- lending risk;
- adequacy of the allowance for loan losses;
- impairment of goodwill;
- failure to integrate or profitably operate acquired organizations;
- additional regulatory requirements if our assets exceed \$10 billion;
- access to low-cost funding sources;
- changes in interest rates;
- dependence on the Company’s management team;
- ability to attract and retain qualified employees;
- governmental regulation and changes in regulatory, tax and accounting rules and interpretations;
- failure of technology;
- cyber-security;
- unfavorable resolution of litigation;
- inability to meet liquidity requirements;
- environmental remediation and other costs;
- ineffective internal operational controls;
- competition;
- reliance on external vendors;
- implementation of new lines of business or new product or service offerings;
- soundness of other financial institutions;
- failure to effectively implement technology-driven products and services;
- inability of our bank subsidiary to pay dividends;
- risks associated with introducing new lines of business, products or services;
- litigation pertaining to fiduciary responsibilities;
- change in dividend policy;
- uninsured nature of any investment in Class A common stock;
- volatility of Class A common stock;
- decline in market price of Class A common stock;
- voting control of Class B stockholders;
- anti-takeover provisions;

dilution as a result of future equity issuances;  
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.

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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, 2015, we had consolidated assets of \$8.7 billion, deposits of \$7.1 billion, loans of \$5.2 billion and total stockholders' equity of \$950 million.

We currently operate 79 banking offices, including detached drive-up facilities, in 45 communities located in Montana, Wyoming and South Dakota. We also offer internet and mobile banking services. Through our wholly-owned subsidiary, FIB, 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 Business

Our principal business activity is lending to, accepting deposits from and conducting financial transactions 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.

### Recent Trends and Developments

On July 24, 2015, we acquired all of the outstanding stock of Absarokee Bancorporation, Inc., or Absarokee, a Montana-based bank holding company operating one wholly-owned subsidiary bank, United Bank, with branches located in three Montana communities adjacent to the Company's existing market areas. United Bank was merged with FIB immediately subsequent to the acquisition. We paid cash consideration for the acquisition of \$7.2 million.

As of the acquisition date, Absarokee had total assets of \$75 million, loans of \$37 million and deposits of \$64 million. For additional information regarding the acquisition, see “Notes to Consolidated Financial Statements—Acquisition,” included in Part IV, Item 15 of this report.

On July 2, 2013, the Board of Governors of the Federal Reserve Bank issued a final rule implementing a revised regulatory capital framework for U.S. banks in accordance with the Basel III international accord. The revised regulatory capital framework, or Basel III, became effective for us on January 1, 2015. Basel III includes a more stringent definition of capital and introduces a new common equity tier 1, or CET1, capital requirement, sets forth a comprehensive methodology for calculating risk-weighted assets, introduces a conservation buffer and sets out minimum capital ratios and overall capital adequacy standards. Certain deductions and adjustments to regulatory capital phase in starting January 1, 2015 and will be fully implemented on January 1, 2018. The capital conservation buffer phases in beginning January 1, 2016 and will be fully

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implemented on January 1, 2019. As of December 31, 2015, we had capital levels that, in all cases, exceeded the well-capitalized guidelines. For additional information regarding our capital levels, see "Capital Resources and Liquidity Management" included herein and "Notes to Unaudited Consolidated Financial Statements—Regulatory Capital," included in Part IV, Item 15 of this report.

### 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 and 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.

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 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.

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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 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."

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### 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 1<sup>st</sup>. 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.

### Fair Values of Loans Acquired in Business Combinations

Loans acquired in business combinations are initially recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest. Going forward, the Company continues to evaluate reasonableness of expectations for the timing and the amount of cash to be collected. Subsequent decreases in expected cash flows may result in changes in the amortization or accretion of fair market value adjustments, and in some cases may result in the loan being considered impaired. For collateral dependent loans with deteriorated credit quality, the Company estimates the fair value of the underlying collateral of the loans. These values are discounted using market derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral.

For additional information regarding acquired loans, see “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies,” “Notes to Consolidated Financial Statements—Acquisitions” and “Notes to Consolidated Financial Statements—Loans,” 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, 2015 to December 31, 2014 and the years ended December 31, 2014 to December 31, 2013.

### 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,			2014			2013			
	2015			Average	Average	Interest	Average	Average	Interest	Average
	Average	Interest	Average	Average	Average	Interest	Average	Average	Interest	Average
	Balance		Rate	Balance	Balance		Rate	Balance		Rate
Interest earning assets:										
Loans (1) (2)	\$5,056,810	\$248,015	4.90 %	\$4,602,907	\$233,273	5.07 %	\$4,281,673	\$222,450	5.20 %	
Investment securities (2)	2,191,968	37,167	1.70	2,122,587	36,755	1.73	2,151,495	38,695	1.80	
Federal funds sold	2,079	12	0.58	1,391	7	0.50	2,852	18	0.63	
Interest bearing deposits in banks	508,314	1,537	0.30	506,067	1,334	0.26	391,515	992	0.25	
Total interest earnings assets	7,759,171	286,731	3.70	7,232,952	271,369	3.75	6,827,535	262,155	3.84	
Non-earning assets	762,535			715,846			600,919			
Total assets	\$8,521,706			\$7,948,798			\$7,428,454			
Interest bearing liabilities:										
Demand deposits	\$2,101,988	\$2,105	0.10 %	\$1,992,565	\$2,094	0.11 %	\$1,751,990	\$1,963	0.11 %	
Savings deposits	1,908,091	2,541	0.13	1,723,073	2,444	0.14	1,566,211	2,445	0.16	
Time deposits	1,171,952	8,461	0.72	1,198,053	9,241	0.77	1,289,108	11,392	0.88	
Repurchase agreements	456,255	231	0.05	454,265	237	0.05	456,840	294	0.06	
Other borrowed funds (3)	6	—	—	8	—	—	10	—	—	
Long-term debt	44,654	2,300	5.15	37,442	2,016	5.38	37,102	1,936	5.22	
Preferred stock pending redemption	—	—	—	—	—	—	2,329	159	6.85	
Subordinated debentures held by subsidiary trusts	82,477	2,422	2.94	88,304	2,574	2.91	82,477	2,506	3.04	
Total interest bearing liabilities	5,765,423	18,060	0.31	5,493,710	18,606	0.34	5,186,067	20,695	0.40	
Non-interest bearing deposits	1,774,696			1,543,079			1,411,270			
Other non-interest bearing liabilities	55,537			56,147			51,587			
Stockholders' equity	926,050			855,862			779,530			
Total liabilities and stockholders' equity	\$8,521,706			\$7,948,798			\$7,428,454			
Net FTE interest income		\$268,671			\$252,763			\$241,460		

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Less FTE adjustments (2)	(4,308 )	(4,302 )	(4,493 )
Net interest income from consolidated statements of income	\$264,363	\$248,461	\$236,967
Interest rate spread	3.39 %	3.41 %	3.44 %
Net FTE interest margin (4)	3.46 %	3.49 %	3.54 %
Cost of funds, including non-interest bearing demand deposits (5)	0.24 %	0.26 %	0.31 %

(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 fully taxable equivalent, or 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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During 2015, deposit growth combined with corresponding increases in interest earning assets and a 3 basis point reduction in our funding costs resulted in an increase in our net interest income on a fully taxable equivalent, or FTE, basis. Our FTE net interest income increased \$15.9 million, or 6.3%, to \$268.7 million in 2015, compared to \$252.8 million in 2014. Interest accretion related to the fair valuation of acquired loans contributed \$5.4 million of interest income during 2015, \$1.5 million of which was the result of early loan pay-offs. Net FTE interest income was also positively impacted by recoveries of previously charged-off interest of \$2.1 million in 2015, as compared to \$3.6 million in 2014. Despite increases in our net FTE interest income, our net interest margin ratio decreased 3 basis points to 3.46% in 2015, compared to 3.49% in 2014. Declines in yields earned on the Company's loan and investment portfolios were partially offset by increases in average interest earning assets, primarily loans and investment securities, and reductions in funding costs. Exclusive of the accelerated interest accretion related to early payoffs of acquired loans and the impact of recoveries of charged-off interest, our net interest margin ratio was 3.40% during 2015 and 3.43% during 2014.

During 2014, our FTE net interest income increased \$11.3 million, or 4.7%, to \$252.8 million in 2014, compared to \$241.5 million in 2013, primarily due to deposit growth combined with corresponding increases in interest earning assets and a 5 basis point reduction in our funding costs. Interest accretion related to the fair valuation of acquired loans contributed \$2.6 million of interest income during 2014, \$1.0 million of which was the result of early loan pay-offs. Net FTE interest income was also positively impacted by recoveries of previously charged-off interest of \$3.6 million in 2014, as compared to \$1.4 million in 2013. Despite increases in our net FTE interest income, our net interest margin ratio decreased 5 basis points to 3.49% in 2014, compared to 3.54% in 2013. Declines in yields earned on the Company's loan and investment portfolios were partially offset by increases in average outstanding loans and reductions in funding costs. Exclusive of the accelerated interest accretion related to early payoffs of acquired loans and the impact of recoveries of charged-off interest, our net interest margin ratio was 3.43% during 2014 and 3.52% during 2013.

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, 2015 compared with December 31, 2014			Year Ended December 31, 2014 compared with December 31, 2013			Year Ended December 31, 2013 compared with December 31, 2012		
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
Interest earning assets:									
Loans (1)	\$23,004	\$(8,262)	\$14,742	\$16,689	\$(5,866)	\$10,823	\$5,864	\$(16,138)	\$(10,274)
Investment Securities (1)	1,201	(789)	412	(520)	(1,420)	(1,940)	594	(6,512)	(5,918)
Federal funds sold	6	197	203	(9)	(2)	(11)	3	2	5
Interest bearing deposits in banks	—	5	5	290	52	342	(241)	(2)	(243)
Total change	24,211	(8,849)	15,362	16,450	(7,236)	9,214	6,220	(22,650)	(16,430)
Interest bearing liabilities:									
Demand deposits	115	(104)	11	270	(139)	131	187	(614)	(427)
Savings deposits	262	(165)	97	245	(246)	(1)	167	(1,284)	(1,117)
Time deposits	(201)	(579)	(780)	(805)	(1,346)	(2,151)	(2,047)	(2,915)	(4,962)
Repurchase agreements	1	(7)	(6)	(2)	(55)	(57)	(51)	(234)	(285)

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Long-term debt	388	(104	)284	18	62	80	(4	)(41	)(45	)
Preferred stock pending redemption	—	—	—	(159	)—	(159	) 28	—	28	
Subordinated debentures held by subsidiary trusts	(170	)18	(152	) 177	(109	)68	(992	)(1,619	)(2,611	)
Total change	395	(941	)(546	) (256	)(1,833	)(2,089	) (2,712	)(6,707	)(9,419	)
Increase (decrease) in FTE net interest income (1)	\$23,816	\$(7,908	)\$15,908	\$ 16,706	\$(5,403	)\$11,303	\$ 8,932	\$(15,943	)\$(7,011	)

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

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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.

Fluctuations in the provision for loan losses reflect management's estimate of possible loan losses based upon evaluation of the borrowers' ability to repay, collateral value underlying loans, loan loss trends and estimated effects of current economic conditions on our loan portfolio. During 2015, we recorded a provision for loan losses of \$6.8 million, as compared to a reversal of provision for loan losses of \$6.6 million in 2014. The provision for loan losses recorded in 2015 was attributable to increases in specific reserves on impaired loans and loan growth.

During 2014, reductions in specific reserves on impaired loans and lower general reserves reflective of continued improvement in economic conditions in our market areas, combined with improvement in loss history trends used to estimate required reserves and decreases in the level of criticized real estate and construction loans, which typically require higher reserves based on loss history, resulted in a \$6.6 million reversal of provision for loan losses. During 2013, declining levels of non-performing assets and criticized loans indicative of improvement in and stabilization of our credit quality, combined with our assessment of the adequacy of our allowance for loan losses resulted in a reversal of provision for loan losses of \$6.1 million. 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 other service charges, commissions and fees; income from the origination and sale of loans; wealth management revenues; and, service charges on deposit accounts. Non-interest income increased \$9.5 million, or 8.6%, to \$120.9 million in 2015 as compared to \$111.4 million in 2014, and decreased \$278 thousand, or less than 1.0%, to \$111.4 million in 2014, as compared to \$111.7 million in 2013. Significant components of these fluctuations are discussed below.

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 \$2.4 million, or 5.9%, to \$43.2 million in 2015 as compared to \$40.7 million in 2014, and increased \$4.8 million, or 13.2%, to \$40.7 million in 2014 as compared to \$36.0 million in 2013, primarily due to increases in interchange revenue due to higher credit and debit card transaction volumes and increases in mortgage loan servicing fee income resulting from an increase in the number of loans serviced.

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 \$6.0 million, or 25.2%, to \$30.0 million during 2015, as compared to \$23.9 million during 2014. Our mortgage loan production volume increased 25% during 2015, as compared to 2014. Loans originated for home purchases accounted for approximately 66% of our 2015 production, as compared to 75% in 2014 and 54% in 2013.

Income from the origination and sale of loans decreased \$10.3 million, or 30.1%, to \$23.9 million during 2014, as compared to \$34.3 million during 2013, due to the combined impacts of lower demand for refinancing loans in our market areas and increased retention of select mortgage loan production in our residential real estate loan portfolio.

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Wealth management revenues are principally comprised of fees earned for management of trust assets and investment services revenues. Wealth management revenues increased \$911 thousand, or 4.8%, to \$19.9 million in 2015, as compared to \$19.0 million in 2014, and increased \$1.9 million, or 11.2%, to \$19.0 million in 2014, as compared to \$17.1 million in 2013, primarily due to the addition of new wealth management customers and increases in the market values of new and existing assets under management.

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 decreased \$368 thousand, or 3.3%, to \$10.7 million in 2015, as compared to \$11.1 million in 2014. During 2015, other income included a one-time gain of \$863 thousand on the sale of land and the reversal of a \$1.0 million expense accrual due to final settlement of secondary investor claims assumed as part of the Mountain West Financial Corp., or MWFC, acquisition. In addition, income from life insurance policies increased \$571 thousand in 2015, as compared to 2014. When comparing 2015 to 2014, increases in other income in 2015 were more than offset by significant one-time other income items recorded in 2014. During 2014, other income included one-time net gains of \$1.2 million related to the sale of two FIB bank buildings and insurance death benefits of \$921 thousand. Also contributing to the decrease in other income in 2015, as compared to 2014, were decreases of \$1.0 million in earnings on securities held under deferred compensation plans.

Other income increased \$3.6 million, or 47.4%, to \$11.1 million in 2014, as compared to \$7.5 million in 2013. Income from life insurance increased \$2.2 million in 2014, as compared to 2013, due to a full year of earnings on \$60.0 million of life insurance purchased in December 2013 and January 2014, additional earnings on \$13 million of company-owned life insurance acquired in the MWFC acquisition and the receipt of death benefits of \$921. In addition, during fourth quarter 2014, we recorded net gains of \$1.2 million related to the sale of two FIB bank buildings and received a \$616 thousand volume bonus from our card payment network. These increases in other income in 2014, as compared to 2013, were partially offset by a decrease of \$911 thousand in earnings on securities held under deferred compensation plans.

## Non-interest Expense

Non-interest expense increased \$11.1 million, or 4.7%, to \$248.0 million in 2015, as compared to \$236.9 million in 2014, and increased \$14.8 million, or 6.7%, to \$236.9 million in 2014, from \$222.1 million in 2013. Non-interest expense for 2015 and 2014 includes \$5.8 million and \$8.0 million, respectively, of acquisition and loss contingency expenses. Exclusive of these acquisition and loss contingency expenses, non-interest expense increased \$13.3 million, or 5.8%, to \$242.2 million in 2015 as compared to \$228.9 million 2014, and increased \$6.8 million, or 3.1%, to \$228.9 million in 2014, as compared to \$222.1 in 2013. Significant components of these increases are discussed in more detail below.

Salaries and wages increased \$4.9 million, or 5.1%, to \$101.5 million in 2015, from \$96.5 million in 2014, primarily due to increased personnel costs associated with the MWFC acquisition in July 2014 and the Absarokee acquisition in July 2015, inflationary wage increases and higher commissions paid to mortgage loan originators due to higher loan production volumes. These increases were partially offset by a decrease of \$1.5 million in incentive bonus accruals reflective of our 2015 performance against our 2015 performance targets.

Salaries and wages increased \$2.5 million, or 2.7%, to \$96.5 million in 2014, from \$94.0 million in 2013, primarily due to increased personnel costs associated with the MWFC acquisition and inflationary wage increases. These increases were partially offset by a decrease of \$2.8 million in incentive bonus accruals reflective of the addition of new performance metrics and changes in the weighting of metrics used in determining incentives payable under our short-term incentive program.

Employee benefits increased \$608 thousand, or 2.0%, to \$30.7 million in 2015, as compared to \$30.1 million in 2014, primarily due to the increases in group health insurance expense reflective of higher claims experience in 2015 and increased benefits costs resulting from the MWFC acquisition in July 2014 and the Absarokee acquisition in July 2015. These increases were partially offset by lower earnings on securities held under deferred compensation plans. Employee benefits decreased \$208 thousand, or less than 1.0%, to \$30.1 million in 2014, as compared to \$30.3 million in 2013, primarily due to lower earnings on securities held under deferred compensation plans, which were partially offset by higher payroll taxes.

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Furniture and equipment expense increased \$1.7 million, or 12.4%, to \$15.5 million in 2015, as compared to \$13.8 million in 2014, primarily due to costs associated with the implementation of new software systems placed into service during the last half of 2014, the continued upgrade of systems during 2015 and increased maintenance costs resulting from the MWFC acquisition in July 2014 and the Absarokee acquisition in July 2015. Furniture and equipment expense increased \$1.3 million, or 10.1%, to \$13.8 million in 2014, as compared to \$12.6 million in 2013, primarily due to the addition of facilities in conjunction with the acquisition of MWFC and additional software costs associated with the implementation of new systems to assist in accounting for acquired loans, processing mortgage loans and automating certain reconciliation functions.

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 properties, net gains and losses recorded on the sale of properties and carrying costs and/or operating expenses and income. Net OREO income increased \$1.2 million, or 442.3%, to \$1.5 million in 2015, as compared to \$272 thousand in 2014, primarily due to higher net gains recorded on the sale of properties. During 2015, we recorded net gains of \$3.0 million, as compared to net gains of \$1.8 million in 2014.

During 2014, we recorded net OREO income of \$272 thousand, as compared to net OREO expense of \$2.3 million in 2013. During 2014, we recorded gains on the sale of properties of \$1.8 million, wrote-down the fair value of properties by \$224 thousand and recorded net operating expenses of \$1.4 million. This compares to net gains of \$3.2 million, write-downs of \$3.5 million and net operating expenses of \$2.0 million in 2013.

Professional fees increased \$1.6 million, or 32.3%, to \$6.5 million in 2015, as compared to \$4.9 million in 2014. During 2015, we incurred professional fees in conjunction with identifying and executing strategies for revenue enhancement and changing our wealth management data platform. Professional fees increased \$109 thousand, or 2.3%, to \$4.9 million in 2014, as compared to \$4.8 million in 2013.

Core deposit intangibles represent the intangible value of depositor relationships resulting from deposit liabilities assumed and are amortized based on the estimated useful lives of the related deposits. Core deposit intangibles amortization expense increased \$1.1 million, or 50.5%, to \$3.4 million in 2015, as compared to \$2.3 million in 2014 due to additional amortization of core deposit intangibles recorded in conjunction with recent acquisitions. Core deposit intangible assets of \$11 million recorded in conjunction with the MWFC acquisition in July 2014 and \$695 thousand recorded in conjunction with the Absarokee acquisition in July 2015, are being amortized using an accelerated method over the estimated useful lives of the related deposits of ten years. Core deposit intangible amortization expense increased \$833 thousand, or 58.7%, to \$2.3 million during 2014, as compared to \$1.4 million during 2013 due to the amortization of core deposit intangible assets associated with the MWFC acquisition.

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; legal expenses; and, other losses. Other expenses increased \$3.5 million, or 7.3%, to \$50.9 million in 2015, as compared to \$47.5 million in 2014. During 2015, the Company recorded write-downs aggregating \$806 thousand in the fair value of two vacated bank buildings held for sale; recorded a one-time contract termination fee of \$876 thousand related to a change in payment service provider; and incurred an additional legal expense of approximately \$1.0 million in conjunction with legal settlements reached in 2015. In addition, the Company recorded fraud losses of \$1.7 million in 2015, as compared to \$1.2 million in 2014, due to unusually high fraudulent credit card activity during the first half of 2015. The remaining increase in other expense in 2015, as compared to 2014, is reflective of additional operating expenses resulting from the MWFC acquisition in July 2014 and the Absarokee acquisition in July 2015. Other expenses increased \$4.2 million, or 9.6%, to \$47.5 million in 2014, as compared to \$43.3 million in 2013, primarily due to additional expenses associated with the acquisition of MWFC.

During 2015 and 2014, we recorded loss contingency expense of \$5.0 million and \$4.0 million, respectively related to a legal and settlement costs associated with a lender liability lawsuit against FIB. The lawsuit was settled in 2015. For additional information regarding this pending litigation, see “Notes to Consolidated Financial Statements—Commitments and Contingencies,” included in Part IV, Item 15 of this report.

During 2015 and 2014, we recorded \$795 thousand and \$4.0 million of acquisition expenses related to the Absarokee acquisition in July 2015 and MWFC acquisition in July 2014, respectively. Acquisition expenses primarily include legal and professional fees, employee retention payments and travel expenses. For additional information regarding the acquisition, see "Recent Developments" included herein and “Notes to Consolidated Financial Statements—Acquisitions,” included in Part IV, Item 15 of this report.

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## Income Tax Expense

Our effective federal tax rate was 29.0% for the year ended December 31, 2015, 30.7% for the year ended December 31, 2014 and 30.8% for the year ended December 31, 2013. Decreases in effective federal income tax rates are primarily due to higher levels of federal tax credits resulting from our increased participation in the New Markets Tax Credits Program. For additional information about our participation in the New Markets Tax Credits Program, see Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies,” included in Part IV, Item 15 of this report.

State income tax applies primarily to pretax earnings generated within Montana and South Dakota. Our effective state tax rate was 4.5% for the year ended December 31, 2015, 4.2% for the year ended December 31, 2014 and 4.3% for the year ended December 31, 2013.

## Net Income

Net income was \$86.8 million, or \$1.90 per diluted share, in 2015, compared to \$84.4 million, or \$1.87 per diluted share, in 2014 and \$86.1 million, or \$1.96 per diluted share, in 2013.

## Summary of Quarterly Results

The following table presents unaudited quarterly results of operations for the fiscal years ended December 31, 2015 and 2014.

## Quarterly Results

(Dollars in thousands except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Year Ended December 31, 2015:					
Interest income	\$68,792	\$69,718	\$70,780	\$73,133	\$282,423
Interest expense	4,467	4,430	4,450	4,713	18,060
Net interest income	64,325	65,288	66,330	68,420	264,363
Provision for loan losses	1,095	1,340	1,098	3,289	6,822
Net interest income after provision for loan losses	63,230	63,948	65,232	65,131	257,541
Non-interest income	27,782	31,770	30,482	30,895	120,929
Non-interest expense	59,592	61,978	65,502	60,941	248,013
Income before income taxes	31,420	33,740	30,212	35,085	130,457
Income tax expense	10,440	11,518	10,050	11,654	43,662
Net income	\$20,980	\$22,222	\$20,162	\$23,431	\$86,795
Basic earnings per common share	\$0.46	\$0.49	\$0.45	\$0.52	\$1.92
Diluted earnings per common share	0.46	0.49	0.44	0.51	1.90
Dividends paid per common share	0.20	0.20	0.20	0.20	0.80

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## Quarterly Results (continued)

(Dollars in thousands except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Year Ended December 31, 2014:					
Interest income	\$62,687	\$64,185	\$69,728	\$70,467	\$267,067
Interest expense	4,551	4,458	4,646	4,951	18,606
Net interest income	58,136	59,727	65,082	65,516	248,461
Provision for loan losses	(5,000	)(2,001	)261	118	(6,622
Net interest income after provision for loan losses	63,136	61,728	64,821	65,398	255,083
Non-interest income	24,106	26,571	29,363	31,361	111,401
Non-interest expense	54,338	55,920	64,958	61,653	236,869
Income before income taxes	32,904	32,379	29,226	35,106	129,615
Income tax expense	11,511	11,302	10,071	12,330	45,214
Net income	\$21,393	\$21,077	\$19,155	\$22,776	\$84,401
Basic earnings per common share	\$0.49	\$0.48	\$0.43	\$0.50	\$1.89
Diluted earnings per common share	0.48	0.47	0.42	0.49	1.87
Dividends paid per common share	0.16	0.16	0.16	0.16	0.64

## Financial Condition

Total assets increased \$118 million, or 1.4%, to \$8,728 million as of December 31, 2015, from \$8,610 million as of December 31, 2014, with \$75 million of the increase attributable to the Absarokee acquisition. During 2015, deposit growth combined with proceeds from maturities and paydowns of investment securities were used to fund loan growth. Total assets increased \$1,045 million, or 13.8%, to \$8,610 as of December 31, 2014, from \$7,565 as of December 31, 2013, with approximately \$612 million of the increase attributable to the MWFC acquisition. Exclusive of the acquired MWFC assets, total assets increased \$433 million, or 5.7%, compared to December 31, 2013, primarily due to organic deposit growth which was used to fund increases in interest earning assets.

## 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 \$349 million, or 7.1%, to \$5,246 million as of December 31, 2015, from \$4,897 million as of December 31, 2014, with all major categories of loans, except agricultural real estate loans, showing growth. Approximately \$37 million of the increase in total loans in 2015, as compared to 2014, was attributable to the Absarokee acquisition. Total loans increased \$553 million, or 12.7%, to \$4,897 million as of December 31, 2014, from \$4,345 million as of December 31, 2013, with approximately \$360 million of the increase attributable to the MWFC acquisition. Exclusive of the acquired MWFC loans, total loans increased \$193 million, or 4.4%, compared to December 31, 2013, with the most notable organic growth occurring in residential real estate and consumer loans.





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

Loans Outstanding

(Dollars in thousands)

	As of December 31,									
	2015	Percent	2014	Percent	2013	Percent	2012	Percent	2011	Percent
Loans										
Real estate:										
Commercial	\$1,793,258	34.2 %	\$1,639,422	33.5 %	\$1,449,174	33.3 %	\$1,497,272	35.6 %	\$1,553,155	37.1 %
Construction	430,719	8.2	418,269	8.5	351,635	8.1	334,529	7.9	400,773	9.6
Residential	1,032,851	19.7	999,903	20.4	867,912	20.0	708,339	16.8	571,943	13.7
Agricultural	156,234	3.0	167,659	3.4	173,534	4.0	177,244	4.2	175,302	4.2
Consumer	844,353	16.1	762,471	15.6	671,587	15.5	636,794	15.1	616,071	14.7
Commercial	792,416	15.1	740,073	15.1	676,544	15.6	688,753	16.3	693,261	16.6
Agricultural	142,151	2.7	124,859	2.5	111,872	2.6	113,627	2.8	119,710	2.8
Other loans	1,339	—	3,959	—	1,734	—	912	—	2,813	—
Mortgage										
loans held	52,875	1.0	40,828	0.8	40,861	0.9	66,442	1.3	53,521	1.3
for sale										
Total loans	5,246,196	100.0%	4,897,443	100.0%	4,344,853	100.0%	4,223,912	100.0%	4,186,549	100.0%
Less										
allowance										
for loan	76,817		74,200		85,339		100,511		112,581	
losses										
Net loans	\$5,169,379		\$4,823,243		\$4,259,514		\$4,123,401		\$4,073,968	
Ratio of										
allowance to	1.46	%	1.52	%	1.96	%	2.38	%	2.69	%
total loans										

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 50% and 51% of our commercial real estate loans were owner occupied as of December 31, 2015 and 2014, respectively. Commercial real estate loans increased \$154 million, or 9.4%, to \$1.8 billion as of December 31, 2015, from \$1.6 billion as of December 31, 2014, with approximately \$12 million of the increase attributable to the Absarokee acquisition. Management attributes the remaining organic growth in commercial real estate loans to continuing business expansion in our market areas and the movement of completed commercial construction projects from construction loans to permanent financing.

Commercial real estate loans increased \$190 million, or 13.1%, to \$1,639 million as of December 31, 2014, from \$1,449 million as of December 31, 2013. Exclusive of the MWFC acquired loans, commercial real estate loans decreased \$25 million, or 1.7%, from December 31, 2013, primarily due to soft loan demand combined with the movement of loans out of the portfolio through charge-off, pay-off and foreclosure.

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, 2015, our construction loan portfolio was divided among the following categories: approximately \$112 million, or 26%, residential construction; approximately \$95 million, or 22%, commercial construction; and, approximately \$224 million, or 52%, land acquisition and development. This compares to approximately \$97 million, or 23%, residential construction; approximately \$101 million, or 24%, commercial construction; and, approximately \$220 million, or 53%, land acquisition and development as of December 31, 2014.

Construction loans grew organically \$12 million, or 3.0%, to \$431 million as of December 31, 2015, from \$418 million as of December 31, 2014. Exclusive of the of the MWFC acquired loans, construction loans increased \$37 million, or 10.4%, from December 31, 2013. Management attributes organic growth in construction loans to continuing increased housing demand in our market areas during 2015 and 2014.

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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 \$299 million as of December 31, 2015 and December 31, 2014. Residential real estate loans increased \$33 million, or 3.3%, to \$1,033 million as of December 31, 2015, from \$1,000 million as of December 31, 2014, primarily due to continued increased housing demand in our market areas. Residential real estate loans grew \$132 million, or 15.2%, to \$1,000 million as of December 31, 2014, from \$868 million as of December 31, 2013, with approximately \$48 million of the increase attributable to the MWFC acquisition. Exclusive of the MWFC acquired loans, residential real estate loans grew \$84 million, or 9.6%, from December 31, 2013, due to higher retention of residential loans in our portfolio combined with increased housing demand in our market areas.

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 74% and 73% of our consumer loans as of December 31, 2015 and 2014, respectively, were indirect consumer loans.

Consumer loans increased \$82 million, or 10.7%, to \$844 million as of December 31, 2015, from \$762 million as of December 31, 2014, with \$70 million of this growth attributable to indirect consumer loans. Consumer loans increased \$91 million, or 13.5%, to \$762 million as of December 31, 2014, from \$672 million as of December 31, 2013, with approximately \$9 million of increase attributable to the MWFC acquisition. Exclusive of the MWFC acquisition, consumer loans grew organically \$82 million, or 12.2%, from December 31, 2013. Management attributes organic growth in consumer loans to expansion of our indirect lending program within our existing market areas and increases in the average loan amounts advanced in 2015 and 2014.

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 increased \$52 million, or 7.1%, to \$792 million as of December 31, 2015, from \$740 million as of December 31, 2014. Commercial loans increased \$64 million, or 9.4%, to \$740 million as of December 31, 2014, from \$677 million as of December 31, 2013, with approximately \$48 million of increase attributable to the MWFC acquisition. Exclusive of the MWFC acquisition, commercial loans grew organically \$15 million, or 2.2%, from December 31, 2013. Management attributes organic growth in commercial loans to continuing business expansion in certain of our market areas during 2015 and 2014.

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 increased \$17 million, or 13.8%, to \$142 million as of December 31, 2015, from \$125 million as of December 31, 2014, with approximately \$7 million of the increase attributable to the Absarokee acquisition. Agricultural loans increased \$13 million, or 11.6%, to \$125 million as of December 31, 2014, from \$112 million as of December 31, 2013, with approximately \$2 million of increase attributable to the MWFC acquisition. Exclusive of the acquired loans, agricultural loans increased \$11 million, or 10.0%, from December 31, 2013.



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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, 2015:

Maturities and Interest Rate Sensitivities  
(Dollars in thousands)

	Within One Year	One Year to Five Years	After Five Years	Total
Real estate	\$1,072,841	\$1,466,204	\$874,017	\$3,413,062
Consumer	247,393	504,224	92,736	844,353
Commercial	396,755	284,734	110,927	792,416
Agricultural	114,309	26,185	1,657	142,151
Other	1,339	—	—	1,339
Mortgage loans held for sale	52,875	—	—	52,875
Total loans	\$1,885,512	\$2,281,347	\$1,079,337	\$5,246,196
Loans at fixed interest rates	\$1,128,509	\$1,459,006	\$298,709	\$2,886,224
Loans at variable interest rates	757,003	822,341	714,243	2,293,587
Non-accrual loans	—	—	66,385	66,385
Total loans	\$1,885,512	\$2,281,347	\$1,079,337	\$5,246,196

## 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 and Troubled Debt Restructurings  
(Dollars in thousands)

As of December 31,	2015	2014	2013	2012	2011	
Non-performing loans:						
Nonaccrual loans	\$66,385	\$62,182	\$94,439	\$107,799	\$199,983	
Accruing loans past due 90 days or more	5,602	2,576	2,232	2,277	4,111	
Total non-performing loans	71,987	64,758	96,671	110,076	204,094	
OREO	6,254	13,554	15,504	32,571	37,452	
Total non-performing assets	\$78,241	\$78,312	\$112,175	\$142,647	\$241,546	
Troubled debt restructurings not included above (1)	\$15,419	\$20,952	\$21,780	\$31,932	\$37,376	
Non-performing loans to total loans (2)	1.37	%1.32	%2.22	%2.61	%4.87	%
Non-performing assets to total loans and OREO (3)	1.49	1.59	2.57	3.35	5.72	
Non-performing assets to total assets (4)	0.90	0.91	1.48	1.85	3.30	
Allowance for loan losses to non-performing loans (5)	106.71	114.58	88.28	91.31	55.16	

Accruing loans modified in troubled debt restructurings are not considered non-performing loans. While still (1) considered impaired under applicable accounting guidance, these loans are performing as agreed under their modified terms and management expects performance to continue.

Including accruing troubled debt restructurings described in footnote 1, the ratio of non-performing loans to total (2) loans would be 1.67%, 1.75%, 2.73%, 3.36% and 5.77% as of December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

(3) Including accruing troubled debt restructurings described in footnote 1, the ratio of non-performing assets to total loans and OREO would be 1.78%, 2.02%, 3.07%, 4.10%, 6.60% and 5.55% as of December 31, 2015, 2014, 2013,

2012 and 2011, respectively.

Including accruing troubled debt restructurings described in footnote 1, the ratio of non-performing assets to total (4) assets would be 1.07%, 1.15%, 1.77%, 2.26% and 3.81% as of December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

Including accruing troubled debt restructurings described in footnote 1, the ratio of allowance for loan losses to (5) non-performing loans would be 87.89%, 86.57%, 72.05%, 70.78% and 46.62% as of December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

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Non-performing loans. Non-performing loans include non-accrual loans and loans contractually past due 90 days or more and still accruing interest. Impaired loans 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 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.

Total non-performing loans increased \$7 million, or 11.2%, to \$72 million as of December 31, 2015, from \$65 million as of December 31, 2014, and decreased \$32 million, or 33.0%, to \$65 million as of December 31, 2014, from \$97 million as of December 31, 2013. Non-accrual loans, the largest component of non-performing loans, increased \$4 million, or 6.8%, to \$66 million as of December 31, 2015, from \$62 million as of December 31, 2014, primarily due to placement of the loans of one commercial borrower on non-accrual status. Non-accrual loans decreased \$32 million, or 34.2%, to \$62 million as of December 31, 2014, from \$94 million as of December 31, 2013, primarily due to pay-downs and the return of performing loans to accrual status.

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 \$3.2 million, \$4.0 million and \$4.6 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, 2015, 2014 and 2013, respectively.

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. Loans returned to accrual status are no longer considered impaired.

Loans past due 90 days or more and still accruing interest increased \$3 million, or 117.5%, to \$6 million as of December 31, 2015, from \$3 million as of December 31, 2014, primarily due to the loans of one borrower that were in the process of renewal as of December 31, 2015.

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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,									
	2015	Percent	2014	Percent	2013	Percent	2012	Percent	2011	Percent
Real estate:										
Commercial	\$24,189	33.6 %	\$27,700	42.8 %	\$48,955	50.7 %	\$50,518	45.8 %	\$67,649	33.2 %
Construction:										
Land acquisition and development	7,956	11.1	8,252	12.7	16,307	16.9	19,627	17.8	62,780	30.8
Commercial	955	1.3	2,564	4.0	225	0.2	8,126	7.4	24,536	12.0
Residential	293	0.4	272	0.4	1,372	1.4	2,175	2.0	4,472	2.2
Total construction	9,204	12.8	11,088	17.1	17,904	18.5	29,928	27.2	91,788	45.0
Residential	7,305	10.1	4,554	7.0	7,276	7.5	11,511	10.5	20,023	9.8
Agricultural	5,355	7.4	6,842	10.6	8,574	8.9	5,048	4.6	3,249	1.6
Total real estate	46,053	63.9	50,184	77.5	82,709	85.6	97,005	88.1	182,709	89.6
Consumer	1,918	2.7	1,282	2.0	1,350	1.4	1,727	1.6	2,054	1.0
Commercial	23,012	32.0	12,846	19.8	12,487	12.9	10,819	9.8	18,462	9.0
Agricultural	690	1.0	446	0.7	125	0.1	525	0.5	869	0.4
Other	\$314	0.4	—	—	\$—	—	\$—	—	\$—	—
Total non-performing loans	\$71,987	100.0 %	\$64,758	100.0 %	\$96,671	100.0 %	\$110,076	100.0 %	\$204,094	100.0 %

For additional information regarding non-performing loans, see “Notes to Consolidated Financial Statements—Loans” included in financial statements included Part IV, Item 15 of this report.

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 a 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 \$7 million, or 53.9%, to \$6 million as of December 31, 2015, from \$14 million as of December 31, 2014. During 2015, we recorded additions to OREO of \$6 million and sold OREO with a book value of \$13 million at a \$3.0 million gain. As of December 31, 2015, 34% of our OREO balance related to land and land development properties, 33% to commercial properties, 27% to residential real estate properties, 5% to agricultural real estate properties and 1% to construction properties.

OREO decreased \$2 million, or 12.6%, to \$14 million as of December 31, 2014, from \$16 million as of December 31, 2013. During 2014, we recorded additions to OREO of \$9 million, \$4 million of which were acquired in conjunction with the MWFC acquisition, wrote down the fair value of OREO properties by \$224 thousand and sold OREO with a



book value of \$11 million.

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Troubled Debt Restructurings. 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, 2015, we had loans renegotiated in troubled debt restructurings of \$40 million, of which \$25 million were reported as non-accrual loans in the non-performing asset and troubled debt restructuring and non-performing loan tables above. The remaining \$15 million were on accrual status and are reported as troubled debt restructurings in the non-performing asset and troubled debt restructurings table above.

As of December 31, 2014, we had loans renegotiated in troubled debt restructurings of \$44 million, of which \$23 million were reported as non-accrual loans in the non-performing asset and troubled debt restructurings and non-performing loan tables above. The remaining \$21 million were on accrual status and are reported as troubled debt restructurings in the non-performing asset and troubled debt restructurings table above.

For additional information regarding loans modified in troubled debt restructurings, see “Notes to Consolidated Financial Statements—Loans” included in financial statements included Part IV, Item 15 of this report.

### 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 recoveries of charged-off loans and is reduced by negative provisions credited to earnings and 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.

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.

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Loans acquired in business combinations are recorded at fair value with no allowance for loan losses on the date of acquisition. Subsequent to the acquisition date, an allowance for loan loss is recorded for the emergence of new probable and estimable losses on loans acquired without evidence of credit impairment. Loans acquired with evidence of credit impairment are regularly monitored and to the extent that the performance has deteriorated from management's expectations at the date of acquisition, an allowance for loan losses is established. As of December 31, 2015 and 2014, management determined that an allowance for loan losses of \$382 thousand and \$287 thousand, respectively, was required for acquired loans under generally accepted accounting principles.

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.

In response to declines in national, regional and local economies we recorded additional general valuation allowances based on management's estimation of the probable impact that the declines would have on our loan portfolio. Accordingly, we recorded significantly higher provisions for loan losses in 2011 to maintain the allowance for loan losses at an appropriate level. 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 2014, with negative provisions recorded during the last half of 2013 and the first half of 2014. During 2015, we recorded provisions for loan losses of \$6.8 million, of which \$3.3 million was recorded during fourth quarter. Approximately 73% of the fourth quarter 2015 provision for loan losses was the result of specific reserves related to the loans of one borrower. This compares to a reversal of provision for loan losses of \$6.6 million in 2014. Increases in provisions for loan losses during 2015, as compared to 2014, are reflective of loan growth and increases in specific reserves primarily related to four commercial real estate relationships.

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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,	2015	2014	2013	2012	2011	
Balance at the beginning of period	\$74,200	\$85,339	\$100,511	\$112,581	\$120,480	
Charge-offs:						
Real estate						
Commercial	326	2,042	4,430	13,014	13,227	
Construction	2,363	328	3,515	25,510	26,125	
Residential	717	637	2,177	4,879	6,199	
Agricultural	669	7	102	103	213	
Consumer	5,683	4,887	4,612	5,320	6,043	
Commercial	1,658	6,030	5,672	11,990	19,332	
Agricultural	221	64	5	120	142	
Total charge-offs	11,637	13,995	20,513	60,936	71,281	
Recoveries:						
Real estate						
Commercial	1,831	953	3,644	907	293	
Construction	903	2,009	2,010	2,022	1,641	
Residential	387	358	424	310	201	
Agricultural	13	3	9	2	—	
Consumer	2,549	2,347	2,059	1,945	1,739	
Commercial	1,749	3,781	3,293	2,905	1,344	
Agricultural	—	27	27	25	13	
Total recoveries	7,432	9,478	11,466	8,116	5,231	
Net charge-offs	4,205	4,517	9,047	52,820	66,050	
Provision for loan losses	6,822	(6,622)	(6,125)	40,750	58,151	
Balance at end of period	\$76,817	\$74,200	\$85,339	\$100,511	\$112,581	
Period end loans	\$5,246,196	\$4,897,443	\$4,344,853	\$4,223,912	\$4,186,549	
Average loans	5,056,810	4,602,907	4,281,673	4,176,439	4,275,128	
Net charge-offs to average loans	0.08	%0.10	%0.21	%1.26	%1.54	%
Allowance to period-end loans	1.46	1.52	1.96	2.38	2.69	

The allowance for loan losses was \$77 million, or 1.46% of period-end loans, at December 31, 2015, compared to \$74 million, or 1.52% of period-end loans, at December 31, 2014, and \$85 million, or 1.96% of period-end loans, at December 31, 2013. The decrease in the allowance for loan losses as a percentage of total loans as of December 31, 2015, compared to December 31, 2014, is primarily due to organic loan growth and the addition of acquired loans which are initially recorded at fair value with no carryover of the related allowance for loan losses. The decreases in the allowance for loan losses as a percentage of total loans as of December 31, 2014, compared to December 31, 2013, was largely due to the acquisition of MWFC loans, which were initially recorded at fair value with no carryover of the related allowance for loan losses.

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, 2015, 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

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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,	2015		2014		2013		2012		2011	
	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	\$52,296	65.1	%\$53,884	65.9	%\$63,923	65.4	%\$75,782	64.5	%\$87,396	64.6
Consumer	5,144	16.1	5,035	15.6	6,193	15.5	7,141	15.1	8,594	14.7
Commercial	18,775	15.1	14,307	15.1	14,747	15.6	17,085	16.3	15,325	16.6
Agricultural	602	2.7	974	2.5	476	2.6	503	2.8	1,266	2.8
Other loans	—	—	—	0.1	—	—	—	—	—	—
Mortgage loans held for sale	—	1.0	—	0.8	—	0.9	—	1.3	—	1.3
Unallocated	—	N/A	—	N/A	—	N/A	—	N/A	—	N/A
Totals	\$76,817	100.0	%\$74,200	100.0	%\$85,339	100.0	%\$100,511	100.0	%\$112,581	100.0

The allowance for loan losses allocated to commercial loans increased 31.2% to \$19 million as of December 31, 2015, from \$14 million as of December 31, 2014, primarily due to increases in specific valuation allowances on impaired loans. The allowance for loan losses allocated to real estate loans decreased 15.7% to \$54 million as of December 31, 2014, from \$64 million as of December 31, 2013, and decreased 15.6% to \$64 million as of December 31, 2013, from \$76 million as of December 31, 2012, primarily due to improvement in real estate values and housing demand in our market areas. 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 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 decreased \$230 million, or 10.0%, to \$2,058 million as of December 31, 2015, from \$2,287 million as of December 31, 2014. Proceeds from maturities and paydowns were primarily used to fund loan growth during 2015. Investment securities increased \$136 million, or 6.3%, to \$2,287 million as of December 31, 2014, from \$2,152 million as of December 31, 2013, with approximately \$37 million of the increase attributable to investment

securities acquired in conjunction with the MWFC acquisition. The remaining increase was due to investment of funds generated through deposit growth.

On October 31, 2015, we transferred available-for-sale U.S. agency residential mortgage-backed securities and collateralized mortgage obligations with amortized costs and fair values of \$100 million and \$100 million, respectively, into the held-to-maturity category. Net unrealized losses of \$203 thousand 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 4.0 years. On June 27, 2014, we transferred available-for-sale U.S. agency residential mortgage-backed securities and collateralized mortgage obligations with amortized costs and fair values of \$397 million and \$389 million, respectively, into the held-to-maturity category. Net unrealized losses of \$8 million 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 4.3 years.



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The following table sets forth the book value, percentage of total investment securities and weighted average yields on investment securities as of December 31, 2015. 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. Treasuries				
Maturing within one year	\$301	0.01	%0.32	%
Maturing in one to five years	3,611	0.18	1.22	
Mark-to-market adjustments on securities available-for-sale	(1	)—	NA	
Total	3,911	0.19	1.15	
U.S. Government agency securities				
Maturing within one year	97,394	4.73	1.02	
Maturing in one to five years	413,685	20.11	1.38	
Maturing in five to ten years	10,000	0.49	1.97	
Mark-to-market adjustments on securities available-for-sale	(898	)(0.04	) NA	
Total	520,181	25.29	1.33	
Mortgage-backed securities				
Maturing within one year	312,602	15.19	2.58	
Maturing in one to five years	821,007	39.91	1.61	
Maturing in five to ten years	86,507	4.20	2.60	
Maturing after ten years	78,219	3.80	3.41	
Mark-to-market adjustments on securities available-for-sale	7,347	0.36	NA	
Total	1,305,682	63.46	2.01	
Marketable CDs				
Maturing within one year	1,479	0.07	1.22	
Maturing in one to five years	2,071	0.10	1.75	
Mark-to-market adjustments on securities available-for-sale	(4	)NA	NA	
Total	3,546	0.17	1.53	
Tax exempt securities				
Maturing within one year	8,903	0.43	2.36	
Maturing in one to five years	58,117	2.82	3.63	
Maturing in five to ten years	84,619	4.11	4.81	
Maturing after ten years	22,146	1.08	4.60	
Mark-to-market adjustments on securities available-for-sale	NA	NA	NA	
Total	173,785	8.44	4.26	
Corporate securities				
Maturing within one year	9,654	0.47	1.03	
Maturing in one to five years	40,392	1.96	1.92	
Mark-to-market adjustments on securities available-for-sale	NA	NA	NA	
Total	50,046	2.43	1.75	
Other securities				
Maturing in five to ten years	354	0.02	7.67	
Mark-to-market adjustments on securities available-for-sale	NA	NA	NA	
Total	354	0.02	7.67	
Total	\$2,057,505	100.00	%2.01	%



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Maturities of U.S. government agency securities noted above reflect \$99 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 \$78 million of these securities will be called in 2015.

As of December 31, 2015, the estimated duration of our investment portfolio was 2.8 years, as compared to 3.0 years as of December 31, 2014. The weighted average yield on investment securities decreased 3 basis points to 1.70% in 2015, from 1.73% in 2014, and 7 basis points to 1.73% in 2014, from 1.80% in 2013.

As of December 31, 2015, investment securities with amortized costs and fair values of \$1,325 million and \$1,329 million, respectively, were pledged to secure public deposits and securities sold under repurchase agreements, as compared to \$1,352 million and \$1,356 million, respectively, as of December 31, 2014. For additional information concerning securities sold under repurchase agreements, see “—Securities Sold Under Repurchase Agreements” included herein.

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, 2015, the carrying value of our investments in non-agency mortgage-backed securities totaled \$156 thousand. All other mortgage-backed securities included in the table above were issued by U.S. government agencies and corporations. As of December 31, 2015, 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, 2015, approximately 81% of our tax-exempt securities were general obligation securities, of which 56% were issued by political subdivisions or agencies within the states of Montana, Wyoming and South Dakota.

As of December 31, 2014, we had U.S. government agency securities with carrying values of \$721 million and a weighted average yield of 1.20%; mortgage-backed securities with carrying values of \$1,344 million and a weighted average yield of 2.15%; tax exempt securities with carrying values of \$189 million and a weighted average tax equivalent yield of 4.43%; corporate securities with carrying values of \$33 million and a weighted average yield of 1.60%; and, other securities with carrying values of \$504 thousand with a weighted average yield of 7.67%.

As of December 31, 2013, we had U.S. government agency securities with carrying values of \$763 million and a weighted average yield of 1.10%; mortgage-backed securities with carrying values of \$1,184 million and a weighted average yield of 2.15%; tax exempt securities with carrying values of \$186 million and a weighted average tax equivalent yield of 4.65%; and, corporate securities with carrying values of \$18 million and a weighted average yield of 1.20%.

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, 2015, we had investment securities with fair values of \$162 million that had been in a continuous loss position more than twelve months. Gross unrealized losses on these securities totaled \$2 million as of December 31, 2015, and were primarily attributable to changes in interest rates. No impairment losses were recorded during 2015, 2014 or 2013.

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 decreased \$18 million, or 2.3%, to \$780 million as of December 31, 2015, from \$799 million as of December 31, 2014. During 2015, loan growth, debt repayment and stock repurchases were funded through available funds resulting in decreases in cash and cash equivalents from December 31, 2014. Cash and cash equivalents increased \$264 million, or 49.3%, to \$799 million as of December 31, 2014, from \$535 million as of December 31, 2013. Fluctuations in cash and cash equivalents occur in the normal course of business and are not reflective of changes in business plan or strategy.

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Goodwill. Goodwill decreased \$1 million to \$205 million as of December 31, 2015, from \$206 million as of December 31, 2014. During third quarter 2015, we recorded goodwill of \$148 thousand in conjunction with the Absarokee acquisition. This increase was offset by a \$1 million decrease in recorded goodwill resulting from the finalization of the fair valuation of deferred tax assets acquired in the MWFC acquisition.

Premises and Equipment

Premises and equipment decreased \$4 million, or 2.3%, to \$191 million as of December 31, 2015, from \$195 million as of December 31, 2014. Premises and equipment increased \$16 million, or 8.6%, to \$195 million as of December 31, 2014, from \$180 million as of December 31, 2013. In conjunction with the MWFC acquisition, we acquired premises and equipment with fair values aggregating \$29 million. Subsequently, we sold \$8 million of the vacated MWFC premises and equipment at carrying value. In addition, during fourth quarter 2014, we sold two FIB bank buildings with carrying values of \$2 million at a net gain of \$1.2 million.

Company-Owned Life Insurance

Company-owned life insurance increased \$33 million, or 21.7%, to \$187 million as of December 31, 2015, from \$154 million as of December 31, 2014, due to the purchase of an additional \$30 million of life insurance covering selected officers of our bank subsidiary and increases in cash surrender values of existing policies. Company-owned life insurance increased \$32 million, or 25.9% to \$154 million as of December 31, 2014, from \$122 million as of December 31, 2013. In conjunction with the MWFC acquisition, we obtained group life insurance policies covering certain key employees of MWB. The net cash surrender value of these policies was \$13 million at December 31, 2014. In addition, in January 2014, we purchased an additional \$15 million of life insurance covering select officers of our bank subsidiary. For additional information regarding our company-owned life insurance, see “Notes to Consolidated Financial Statements — Company-Owned Life Insurance” included in Part IV, Item 15.

Deferred Tax Asset/Liability

As of December 31, 2015, we had a net deferred tax liability of \$10 million, as compared to a net deferred tax asset of \$5 million as of December 31, 2014. The shift in deferred taxes from a net asset to a net liability was primarily due to decreases in deferred tax assets related to discounts on acquired loans and unrealized losses on available-for sale investment securities. The shift in the deferred taxes from a net asset to a net liability was also impacted by increases in deferred tax liabilities related to tax deductible goodwill from previous acquisitions and increases in deferred tax liabilities related to depreciation of fixed assets.

Our net deferred tax asset decreased \$7 million, or 59.9%, to \$5 million as of December, 31, 2014, from \$12 million as of December 31, 2013. Increases in net deferred tax assets resulting from the MWFC acquisition were more than offset by decreases related to unrealized losses on available-for-sale investment securities, reductions in temporary timing differences associated with our allowance for loan losses and increases in deferred tax liabilities related to tax deductible goodwill from previous acquisitions.

Other Assets

Other assets increased \$5 million, or 6.2%, to \$78 million as of December 31, 2015, from \$73 million as of December 31, 2014, primarily due to increases in tax credit investments under the New Markets Tax Credit Program. Other assets increased \$12 million, or 20.4%, to \$73 million as of December 31, 2014, from \$61 million as of December 31, 2013, primarily due to other assets acquired in, and increases in Federal Home Loan Bank and Federal Reserve Bank stock holding requirements resulting from, the MWFC acquisition.

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.



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

## Deposits

(Dollars in thousands)

As of December 31,	2015	Percent	2014	Percent	2013	Percent	2012	Percent	2011	Percent
Non-interest bearing demand	\$1,823,716	25.6	% \$1,791,364	25.5	% \$1,491,683	24.3	% \$1,495,309	24.0	% \$1,271,709	21.8
Interest bearing:										
Demand	2,178,373	30.8	2,133,273	30.5	1,848,806	30.2	1,811,905	29.0	1,306,509	22.4
Savings	1,955,256	27.6	1,843,355	26.3	1,602,544	26.1	1,547,713	24.8	1,691,413	29.0
Time, \$100 or more	487,372	6.9	520,125	7.4	492,051	8.0	594,712	9.5	681,047	11.7
Time, other	644,220	9.1	718,095	10.2	698,666	11.4	790,772	12.7	876,293	15.1
Total interest bearing	5,265,221	74.4	5,214,848	74.5	4,642,067	75.7	4,745,102	76.0	4,555,262	78.2
Total deposits	\$7,088,937	100.0	% \$7,006,212	100.0	% \$6,133,750	100.0	% \$6,240,411	100.0	% \$5,826,971	100.0

Total deposits increased \$83 million, or 1.2%, to \$7,089 million as of December 31, 2015, from \$7,006 million as of December 31, 2014, with approximately \$64 million of the increase attributable to the Absarokee acquisition in July 2015. During 2015, the mix of deposits continued to shift from higher-costing time deposits to lower-costing savings and demand deposits. Management attributes this ongoing shift to the sustained low interest rate environment experienced during recent years as many customers appear to have become less inclined to invest their funds for extended periods.

Total deposits increased \$872 million, or 14.2%, to \$7,006 million as of December 31, 2014, from \$6,134 million as of December 31, 2013. During 2014, we acquired approximately \$515 million of deposits in connection with the acquisition of MWFC, including approximately \$67 million of non-interest bearing demand deposits, \$178 million of interest bearing demand deposits, \$111 million of savings deposits, \$68 million of time deposits of \$100,000 or more, and \$91 million of other time deposits.

**Non-Interest Bearing Demand.** Non-interest bearing demand deposits increased \$32 million, or 1.8%, to \$1,824 million as of December 31, 2015, from \$1,791 million as of December 31, 2014, with approximately \$10 million of the increase attributable to the Absarokee acquisition. Non-interest bearing demand deposits increased \$300 million, or 20.1%, to \$1,791 million as of December 31, 2014, from \$1,492 million as of December 31, 2013. Exclusive of acquired MWFC deposits, non-interest bearing demand deposits increased \$233 million, or 15.6%, compared to December 31, 2013, due to organic growth.

**Interest Bearing Demand.** Interest bearing demand deposits increased \$45 million, or 2.1%, to \$2,178 million as of December 31, 2015, from \$2,133 million as of December 31, 2014, with approximately \$13 million of the increase attributable to the Absarokee acquisition. Interest bearing demand deposits increased \$284 million, or 15.4%, to \$2,133 million as of December 31, 2014, from \$1,849 million as of December 31, 2013. Exclusive of acquired MWFC deposits, interest bearing demand deposits increased \$106 million, or 5.7%, compared to December 31, 2013, due to organic growth.

**Savings Deposits.** Savings deposits increased \$112 million, or 6.1%, to \$1,955 million as of December 31, 2015, from \$1,843 million as of December 31, 2014, with approximately \$24 million of the increase attributable to the Absarokee acquisition. Savings deposits increased \$241 million, or 15.0%, to \$1,843 million as of December 31, 2014, from \$1,603 million as of December 31, 2013. Exclusive of acquired MWFC deposits, savings deposits increased \$130 million, or 8.1%, compared to December 31, 2013, due to organic growth.

Management attributes organic growth in non-interest bearing demand, interest bearing demand and savings deposits during 2015 and 2014 to changes in customer liquidity combined with continued low interest rates offered on alternative interest earning deposit products.

**Time deposits of \$100,000 or more.** Time deposits of \$100,000 or more decreased \$33 million, or 6.3%, to \$487 million as of December 31, 2015, from \$520 million as of December 31, 2014. Exclusive of deposits acquired in the Absarokee acquisition, time deposits of \$100,000 or more decreased approximately \$41 million, or 7.8%, from December 31, 2014. Time deposits of \$100,000 or more increased \$28 million, or 5.7%, to \$520 million as of December 31, 2014, from \$492 million as of December 31, 2013. Exclusive of deposits acquired in the MWFC acquisition, time deposits of \$100,000 or more decreased approximately \$40 million, or 8.0%, from December 31, 2013.



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Other Time deposits. Other time deposits decreased \$74 million, or 10.3%, to \$644 million as of December 31, 2015, from \$718 million as of December 31, 2014. Exclusive of deposits acquired in the Absarokee acquisition, other time deposits decreased approximately \$81 million, or 11.3%, from December 31, 2014. Other time deposits increased \$19 million, or 2.8%, to \$718 million as of December 31, 2014, from \$699 million as of December 31, 2013. Exclusive of deposits acquired in the MWFC acquisition, other time deposits decreased approximately \$72 million, or 10.3%, from December 31, 2013.

Management attributes organic decreases in time deposits during 2015 and 2014 to the impact of a continued low interest rate environment as many customers appear to have become less inclined to invest their funds for extended periods.

As of December 31, 2015 and 2014, we had Certificate of Deposit Account Registry Service, or CDARS, deposits of \$38 million and \$40 million, respectively. As of December 31, 2015 and 2014, we had no certificates of deposit issued in brokered transactions.

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 increased \$8 million, or 1.7%, to \$511 million as of December 31, 2015, from \$502 million as of December 31, 2014, and increased \$45 million, or 9.8%, to \$502 million as of December 31, 2014, from \$457 million as of December 31, 2013. 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,	2015	2014	2013	
Securities sold under repurchase agreements:				
Balance at period end	\$510,635	\$502,250	\$457,437	
Average balance	456,255	454,265	456,840	
Maximum amount outstanding at any month-end	510,635	547,153	533,965	
Average interest rate:				
During the year	0.05	% 0.05	% 0.06	%
At period end	0.07	0.10	0.07	

Long-Term Debt. Long-term debt decreased \$10 million, or 26.7%, to \$28 million as of December 31, 2015, from \$38 million as of December 31, 2014. On January 29, 2015, we borrowed \$5 million on a 2.28% note payable maturing July 29, 2022, with interest payable monthly and principal due at maturity. The note is collateralized by our equity interest in Universal Sub CDE, LLC, a community development entity owned 99.9% by us. This increase was more than offset by the fourth quarter 2015 early repayment of a \$15 million variable rate subordinated term loan with an original maturity date of February 28, 2018. There were no prepayment penalties associated with the repayment. Long-term debt increased \$1 million, or 3.1%, to \$38 million as of December 31, 2014, from \$37 million as of

December 31, 2013. For additional information regarding the long-term debt, see “Notes to Consolidated Financial Statements—Long-Term Debt,” included in Part IV, Item 15 of this report.

#### Subordinated Debentures Held by Subsidiary Trusts

Subordinated debentures held by subsidiary trusts remained unchanged at \$82 million as of December 31, 2015 and 2014. In conjunction with the acquisition of MWFC in July 2014, we assumed \$20 million of subordinated debentures held by two business trusts, Mountain West Statutory Trust III and Mountain West Statutory Trust IV (collectively, the “Mountain West Subordinated Debentures”). On December 15, 2014, we redeemed \$14 million of the Mountain West Subordinated Debentures bearing a cumulative floating interest rate equal to LIBOR plus 1.85% per annum, and on December 26, 2014, we redeemed

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the remaining \$6 million of the Mountain West Subordinated Debentures bearing a cumulative floating interest rate equal to LIBOR plus 3.10% per annum. The redemption price of the Mountain West Subordinated Debentures was equal to the \$1 liquidation amount of each debenture plus all accrued and unpaid distributions to the date of redemption. The redemption of the Mountain West Subordinated Debentures caused a mandatory redemption of \$20 million of Mountain West Trust Preferred Securities and \$614 thousand of common equity securities. 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 decreased \$13 million, or 19.8%, to \$53 million as of December 31, 2015, from \$66 million as of December 31, 2014. This decrease is primarily due to timing and amounts of corporate tax payments and lower incentive bonus and profit sharing accruals. Accounts payable and accrued expenses increased \$19 million, or 39.2%, to \$66 million as of December 31, 2014, from \$48 million as of December 31, 2013, primarily due to the timing and amounts of corporate tax payments.

## Contractual Obligations

Contractual obligations as of December 31, 2015 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	\$5,957,345	\$—	\$—	\$—	\$5,957,345
Time deposits	737,326	278,266	115,957	43	1,131,592
Securities sold under repurchase agreements	510,635	—	—	—	510,635
Other borrowed funds (1)	2	—	—	—	2
Long-term debt obligations (2)	—	20,000	—	6,303	26,303
Capital lease obligations	65	148	173	1,196	1,582
Operating lease obligations	2,203	3,724	2,836	8,655	17,418
Purchase obligations (3)	1,341	—	—	—	1,341
Subordinated debentures held by subsidiary trusts (4)	—	—	—	82,477	82,477
Total contractual obligations	\$7,208,917	\$302,138	\$118,966	\$98,674	\$7,728,695

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 a fixed rate note payable bearing interest of 2.28% and maturing on July 29, 2022; fixed rate note payable bearing interest of 6.24% and maturing on September 1, 2032; and, a fixed rate (2) subordinated term loan bearing interest of 6.81% and maturing January 9, 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.

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### 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.

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 stock and changes in the unrealized holding gains or losses, net of taxes, on available-for-sale investment securities. Stockholders' equity increased \$42 million, or 4.6%, to \$950 million as of December 31, 2015 from \$909 million as of December 31, 2014, due primarily to the retention of earnings. Increases in stockholders' equity due to earnings retention were partially offset by the repurchase and retirement of our common stock. During 2015, we repurchased and retired 765,875 shares of our Class A common stock in open market transactions at an aggregate purchase price of \$19.9 million. The repurchases were made pursuant to a stock repurchase program approved by our Board of Directors in January 2015. On September 24, 2015, our Board of Directors reauthorized the repurchase of up to one million shares of our Class A common stock under the repurchase program. We paid aggregate cash dividends of \$36.3 million to common shareholders during 2015. On January 21, 2016, we declared a quarterly dividend to common stockholders of \$0.22 per share, which was paid on February 12, 2016 to shareholders of record as of February 1, 2016.

Stockholders' equity increased \$107 million, or 13.4%, to \$909 million as of December 31, 2014 from \$802 million as of December 31, 2013, due primarily to the retention of earnings, the issuance of 1,378,230 shares of Class A common stock with an aggregate value of \$36 million as partial consideration for the acquisition of MWFC and decreases in net unrealized losses on available-for-sale investment securities. We paid aggregate cash dividends of \$28.6 million to common shareholders during 2014. Also during 2014, we repurchased and retired 362,121 of our shares of Class A common stock in a combination of privately negotiated and open market transactions at an aggregate purchase price of \$9.1 million. The repurchases were made pursuant to a stock repurchase program approved by our Board of Directors in November 2013, authorizing the repurchase of up to 2 million shares of our Class A common stock in open market or privately negotiated transactions through November 14, 2014. For additional information regarding the repurchases, see “Notes to Consolidated Financial Statements — Capital Stock and Dividend Restrictions” included in Part IV, Item 15 of this report.

On April 3, 2015, the Company filed a Registration Statement on Form S-8 to register 2,000,000 shares of Class A common stock to be issued pursuant to the Company's 2015 Equity and Incentive Plan.

On January 24, 2014, the Company filed a Registration Statement on Form S-8 to register 1,500,000 shares of Class A common stock to be issued pursuant to the Company's 2006 Equity Compensation Plan, as amended and restated. All shares of common stock available for future grant under the 2006 Equity Compensation Plan, as amended and restated, were transferred into the 2015 Equity and Incentive Plan in April 2015.

On May 24, 2013, we filed a shelf registration statement on Form S-3, which was subsequently declared effective by the SEC. The registration statement permits us to offer and sell up to \$160 million of our Class A common shares in one or more future public offerings. At the present time, we have no specific plans to offer any of the securities covered by the registration statement.

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On July 2, 2013, the Board of Governors of the Federal Reserve Bank, or the Federal Reserve Board, issued a final rule implementing a revised regulatory capital framework for U.S. banks in accordance with the Basel III international accord and satisfying related mandates under the Dodd-Frank Act. Under the final rule, minimum capital requirements will increase for both quantity and quality of capital held by banking organizations. The final rule includes a new common equity tier 1 minimum capital requirement of 4.5% of risk-weighted assets and increases the minimum tier 1 capital requirement from 4.0% to 6.0% of risk-weighted assets. The minimum total risk-based capital remains unchanged at 8.0% of total risk-weighted assets. In addition to the minimum common equity tier 1, tier 1 and total risk-based capital requirements, the final rule requires banking organizations to hold a buffer of common equity tier 1 capital in an amount above 2.5% of total risk-weighted assets to avoid restrictions on capital distributions and discretionary bonus payments to executive officers. The minimum regulatory capital requirements and compliance with a standardized approach for determining risk-weighted assets of the final rule became effective for us on January 1, 2015. The capital conservation buffer framework transition period begins January 1, 2016, with full implementation effective January 1, 2019.

As of December 31, 2015 and 2014, we had capital levels that, in all cases, exceeded the well-capitalized guidelines. Additionally, our calculations indicate that as of December 31, 2015, we would meet all fully phased-in Basel III capital adequacy requirements. For additional information regarding the impact of this final rule, see "Regulation and Supervision — Capital Standards and Prompt Corrective Action" included in Part I, Item 1 of this report. For additional information regarding our capital levels, see "Notes to Unaudited Consolidated Financial Statements—Regulatory Capital," included 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 funds through 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.

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—Risks Relating to the Market and Our Business.”

Management continuously monitors our liquidity position and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Our management is not aware of any events that are reasonably likely to have a material adverse effect on our liquidity, capital resources or operations. In addition, our management is not aware of any regulatory recommendations regarding liquidity, which if implemented, would have a material adverse effect on us.



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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 fluctuate adversely 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 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 net interest income, 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 net interest income 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, 2015. 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)	\$1,616,135	\$939,046	\$2,263,635	\$360,995	\$5,179,811	
Investment securities (2)	115,930	311,460	1,066,864	563,251	2,057,505	
Interest bearing deposits in banks	647,299	—	—	—	647,299	
Federal funds sold	563	—	—	—	563	
Total interest earning assets	\$2,379,927	\$1,250,506	\$3,330,499	\$924,246	\$7,885,178	
Interest bearing liabilities:						
Interest bearing demand accounts (3)	\$654,406	\$494,472	\$1,029,720	\$—	\$2,178,598	
Savings deposits (3)	1,090,685	448,459	416,112	—	1,955,256	
Time deposits, \$100 or more	109,343	213,440	164,589	—	487,372	
Other time deposits	181,410	233,133	229,635	42	644,220	
Securities sold under repurchase agreements	510,635	—	—	—	510,635	
Other borrowed funds	2	—	—	—	2	
Long-term debt	16	49	20,418	7,402	27,885	
Subordinated debentures held by subsidiary trusts	82,477	—	—	—	82,477	
Total interest bearing liabilities	\$2,628,974	\$1,389,553	\$1,860,474	\$7,444	\$5,886,445	
Rate gap	\$(249,047)	\$(139,047)	\$1,470,025	\$916,802	\$1,998,733	
Cumulative rate gap	(249,047)	(388,094)	1,081,931	1,998,733		
Cumulative rate gap as a percentage of total interest earning assets	-3.16	%-4.92	%13.72	%25.35	%25.35	%

Does not include non-accrual loans of \$66 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.

Interest bearing demand and savings deposits, while technically subject to immediate withdrawal, actually display sensitivity characteristics that generally fall within one to five years. Their allocation is presented based on those (3) sensitivity characteristics. If these deposits were included in the three month or less category, the above table would reflect a negative three month gap of \$2.6 million, a negative cumulative one year gap of \$1.8 million and a positive cumulative one to five year gap of \$1.1 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 income 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 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 rate loans and reinvestment opportunities for cash flows. Given these various assumptions, the actual effect of interest rate changes on our net interest income may be materially different than estimated.

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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 interest rates shift up or down 2%. As of December 31, 2015, our income simulation model predicted net interest income would increase \$1.3 million, or 0.5%, assuming a 0.5% increase in interest rates during each of the next four consecutive quarters. This scenario predicts that our interest bearing liabilities reprice slightly faster than our interest earning assets. We have not engaged in significant derivative or balance sheet 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, 2015. Prime rate has historically been set at a rate of 300 basis points over the targeted federal funds rate, which is currently set between 25 and 50 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, 2015, a further decline in interest rates would result in an acceleration of the compression of our net interest income.

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 RSM US LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets — December 31, 2015 and 2014

Consolidated Statements of Income — Years Ended December 31, 2015, 2014 and 2013

Consolidated Statements of Comprehensive Income — Years Ended December 31, 2015, 2014 and 2013

Consolidated Statements of Stockholders’ Equity — Years Ended December 31, 2015, 2014 and 2013

Consolidated Statements of Cash Flows — Years Ended December 31, 2015, 2014 and 2013

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, 2015, 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, 2015, 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, 2015. In making this assessment, we used the criteria set forth in 2013 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, 2015, 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.

RSM US 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, 2015. The report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2015, 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, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. 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, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

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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, 2015 and 2014 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, 2015 and our report dated February 29, 2016 expressed an unqualified opinion.

/s/ RSM US LLP  
Des Moines, Iowa  
February 29, 2016

Item 9B. Other Information

There were no items required to be disclosed in a report on Form 8-K during the fourth quarter of 2015 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 2016 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 2015 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 2016 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 2016 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 2016 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 2016 annual meeting of shareholders and is herein incorporated by reference.

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

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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, 2015 and 2014, 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, 2015. 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, 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, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of First Interstate BancSystem Inc. and subsidiaries' internal control over financial reporting.

/s/ RSM US LLP  
Des Moines, Iowa  
February 29, 2016

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

(In thousands, except share data)

December 31,	2015	2014
Assets		
Cash and due from banks	\$ 132,595	\$ 147,894
Federal funds sold	563	543
Interest bearing deposits in banks	647,299	650,233
Total cash and cash equivalents	780,457	798,670
Investment securities:		
Available-for-sale	1,456,840	1,711,924
Held-to-maturity (estimated fair values of \$607,550 and \$584,533 at December 31, 2015 and 2014, respectively)	600,665	575,186
Total investment securities	2,057,505	2,287,110
Loans held for investment	5,193,321	4,856,615
Mortgage loans held for sale	52,875	40,828
Total loans	5,246,196	4,897,443
Less allowance for loan losses	76,817	74,200
Net loans	5,169,379	4,823,243
Premises and equipment, net of accumulated depreciation	190,812	195,212
Goodwill	204,523	205,574
Company-owned life insurance	187,253	153,821
Other real estate owned ("OREO")	6,254	13,554
Accrued interest receivable	27,729	27,063
Mortgage servicing rights, net of accumulated amortization and impairment reserve	15,621	14,038
Deferred tax asset, net	—	4,874
Core deposit intangibles, net of accumulated amortization	10,589	13,282
Other assets	78,074	73,495
Total assets	\$ 8,728,196	\$ 8,609,936
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	\$ 1,823,716	\$ 1,791,364
Interest bearing	5,265,221	5,214,848
Total deposits	7,088,937	7,006,212
Securities sold under repurchase agreements	510,635	502,250
Accounts payable and accrued expenses	53,042	66,164
Accrued interest payable	4,960	5,833
Deferred tax liability, net	9,765	—
Long-term debt	27,885	38,067
Other borrowed funds	2	9
Subordinated debentures held by subsidiary trusts	82,477	82,477
Total liabilities	7,777,703	7,701,012
Stockholders' equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued or outstanding as of December 31, 2015 and 2014	—	—
Common stock	311,720	323,596
Retained earnings	638,367	587,862

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Accumulated other comprehensive gain (loss), net	406	(2,534 )
Total stockholders' equity	950,493	908,924
Total liabilities and stockholders' equity	\$8,728,196	\$8,609,936
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,	2015	2014	2013
Interest income:			
Interest and fees on loans	\$246,015	\$231,469	\$220,687
Interest and dividends on investment securities:			
Taxable	30,861	29,900	31,237
Exempt from federal taxes	3,998	4,357	4,728
Interest on deposits in banks	1,537	1,334	992
Interest on federal funds sold	12	7	18
Total interest income	282,423	267,067	257,662
Interest expense:			
Interest on deposits	13,107	13,779	15,800
Interest on securities sold under repurchase agreements	231	237	294
Interest on long-term debt	2,300	2,016	1,936
Interest on preferred stock pending redemption	—	—	159
Interest on subordinated debentures held by subsidiary trusts	2,422	2,574	2,506
Total interest expense	18,060	18,606	20,695
Net interest income	264,363	248,461	236,967
Provision for loan losses	6,822	(6,622)	(6,125)
Net interest income after provision for loan losses	257,541	255,083	243,092
Non-interest income:			
Other service charges, commissions and fees	43,154	40,742	35,977
Income from the origination and sale of loans	29,973	23,940	34,254
Wealth management revenues	19,907	18,996	17,085
Service charges on deposit accounts	17,031	16,567	16,837
Investment securities gains, net	137	61	1
Other income	10,727	11,095	7,525
Total non-interest income	120,929	111,401	111,679
Non-interest expense:			
Salaries and wages	101,451	96,513	94,002
Employee benefits	30,738	30,130	30,338
Occupancy, net	17,879	17,796	16,587
Furniture and equipment	15,524	13,816	12,554
Outsourced technology services	10,124	9,423	9,029
FDIC insurance premiums	4,858	4,608	5,057
Professional fees	6,458	4,882	4,773
OREO expense, net of income	(1,475)	(272)	2,291
Mortgage servicing rights amortization	2,434	2,361	2,787
Mortgage servicing rights impairment recovery	(97)	(136)	(99)
Core deposit intangibles amortization	3,388	2,251	1,418
Other expenses	50,936	47,480	43,332
Loss contingency expense	5,000	4,000	—
Acquisition expenses	795	4,017	—
Total non-interest expense	248,013	236,869	222,069
Income before income tax expense	130,457	129,615	132,702
Income tax expense	43,662	45,214	46,566

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Net income	\$86,795	\$84,401	\$86,136
Basic earnings per common share	\$1.92	\$1.89	\$1.98
Diluted earnings per common share	1.90	1.87	1.96
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,	2015	2014	2013
Net income	\$86,795	\$84,401	\$86,136
Other comprehensive income (loss) before tax:			
Investment securities available-for-sale:			
Change in net unrealized gains (losses) during the period	5,863	21,147	(52,949 )
Reclassification adjustment for net gains included in income	(137 )	(61 )	(1 )
Change in unamortized loss on available-for-sale investment securities transferred into held-to-maturity	(1,101 )	(548 )	—
Change in net unrealized gain on derivatives	165	—	—
Defined benefit post-retirement benefit plans:			
Change in net actuarial loss	58	1,731	137
Other comprehensive income (loss), before tax	4,848	22,269	(52,813 )
Deferred tax benefit (expense) related to other comprehensive income (loss)	(1,908 )	(8,762 )	20,781
Other comprehensive income (loss), net of tax	2,940	13,507	(32,032 )
Comprehensive income	\$89,735	\$97,908	\$54,104

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)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2012	\$271,335	\$463,860	\$ 15,991	\$751,186
Net income	—	86,136	—	86,136
Other comprehensive income, net of tax	—	—	(32,032 )	(32,032 )
Common stock transactions:				
25,677 common shares purchased and retired	(448 )	—	—	(448 )
26,096 common shares issued	543	—	—	543
120,873 non-vested common shares issued	—	—	—	—
30,648 non-vested common shares forfeited or canceled	—	—	—	—
774,096 stock options exercised, net of 392,411 shares tendered in payment of option price and income tax withholding amounts	9,271	—	—	9,271
Tax benefit of stock-based compensation	1,898	—	—	1,898
Stock-based compensation expense	2,936	—	—	2,936
Cash dividends declared:				
Common (\$0.41 per share)	—	(17,909 )	—	(17,909 )
Balance at December 31, 2013	285,535	532,087	(16,041 )	801,581
Net income	—	84,401	—	84,401
Other comprehensive loss, net of tax	—	—	13,507	13,507
Common stock transactions:				
388,101 common shares purchased and retired	(9,739 )	—	—	(9,739 )
1,402,811 common shares issued	35,674	—	—	35,674
148,278 non-vested common shares issued	—	—	—	—
29,261 non-vested common shares forfeited or canceled	—	—	—	—
499,625 stock options exercised, net of 239,665 shares tendered in payment of option price and income tax withholding amounts	6,299	—	—	6,299
Tax benefit of stock-based compensation	2,193	—	—	2,193
Stock-based compensation expense	3,634	—	—	3,634
Cash dividends declared:				
Common (\$0.64 per share)	—	(28,626 )	—	(28,626 )
Balance at December 31, 2014	\$323,596	\$587,862	\$(2,534 )	\$908,924



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

(In thousands, except share and per share data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2014	\$323,596	\$587,862	\$(2,534 )	\$908,924
Net income	—	86,795	—	86,795
Other comprehensive income, net of tax	—	—	2,940	2,940
Common stock transactions:				
793,077 common shares purchased and retired	(20,647 )	—	—	(20,647 )
21,414 common shares issued	—	—	—	—
169,577 non-vested common shares issued	—	—	—	—
19,184 non-vested common shares forfeited or canceled	—	—	—	—
261,080 stock options exercised, net of 89,358 shares tendered in payment of option price and income tax withholding amounts	3,369	—	—	3,369
Tax benefit of stock-based compensation	1,443	—	—	1,443
Stock-based compensation expense	3,959	—	—	3,959
Cash dividends declared:				
Common (\$0.80 per share)		(36,290 )	—	(36,290 )
Balance at December 31, 2015	\$311,720	\$638,367	\$406	\$950,493

See accompanying notes to consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Year Ended December 31,	2015	2014	2013
Cash flows from operating activities:			
Net income	\$86,795	\$84,401	\$86,136
Adjustments to reconcile net income from operations to net cash provided by operating activities:			
Provision for loan losses	6,822	(6,622)	