FIRST INTERSTATE BANCSYSTEM INC
Form 10-Q
May 09, 2018

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

FORM 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018
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	81-0331430
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
401 North 31st Street, Billings, MT	59116-0918
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (406)255-5390

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 ý No ¨

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

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date:

March 31, 2018 – Class A common stock	34,067,912
March 31, 2018 – Class B common stock	22,631,503

Quarterly Report on Form 10-Q

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Index
March 31, 2018

2

Table of Contents

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	March 31, 2018	December 31, 2017
Assets		
Cash and due from banks	$187.7	$196.5
Interest bearing deposits in banks	556.4	562.3
Federal funds sold	0.1	0.1
Total cash and cash equivalents	744.2	758.9
Investment securities:		
Available-for-sale	2,280.7	2,208.7
Held-to-maturity (estimated fair values of $455.5 and $483.3 at March 31, 2018 and December 31, 2017, respectively)	462.3	484.5
Total investment securities	2,743.0	2,693.2
Loans held for investment	7,614.5	7,567.7
Mortgage loans held for sale	32.3	46.6
Total loans	7,646.8	7,614.3
Less allowance for loan losses	73.5	72.1
Net loans	7,573.3	7,542.2
Goodwill	445.6	444.7
Company-owned life insurance	261.9	260.6
Premises and equipment, net of accumulated depreciation	240.2	241.9
Accrued interest receivable	38.9	38.0
Mortgage servicing rights, net of accumulated amortization and impairment reserve	25.2	24.8
Core deposit intangibles, net of accumulated amortization	47.3	49.1
Other real estate owned (“OREO”)	11.0	10.1
Deferred tax asset, net	—	4.0
Other assets	142.8	145.8
Total assets	$12,273.4	$12,213.3
Liabilities and Stockholders’ Equity		
Deposits:		
Non-interest bearing	$2,897.6	$2,900.0
Interest bearing	7,128.3	7,034.9
Total deposits	10,025.9	9,934.9
Securities sold under repurchase agreements	633.8	643.0
Accounts payable and accrued expenses	75.7	86.6
Accrued interest payable	5.7	5.6
Deferred tax liability, net	1.7	—
Long-term debt	15.7	13.1
Other borrowed funds	—	20.0
Subordinated debentures held by subsidiary trusts	82.5	82.5
Total liabilities	10,841.0	10,785.7
Stockholders’ equity:		
	—	—

Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued and outstanding as of March 31, 2018 or December 31, 2017		
Common stock	688.0	687.0
Retained earnings	776.7	752.6
Accumulated other comprehensive loss, net	(32.3)	(12.0)
Total stockholders’ equity	1,432.4	1,427.6
Total liabilities and stockholders’ equity	$12,273.4	$12,213.3

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Interest income:		
Interest and fees on loans	$91.7	$ 63.7
Interest and dividends on investment securities:		
Taxable	13.2	8.7
Exempt from federal taxes	0.6	0.8
Interest on deposits in banks	2.1	1.2
Total interest income	107.6	74.4
Interest expense:		
Interest on deposits	6.2	4.1
Interest on securities sold under repurchase agreements	0.4	0.2
Interest on other borrowed funds	0.1	—
Interest on other debt	0.2	0.5
Interest on subordinated debentures held by subsidiary trusts	0.9	0.7
Total interest expense	7.8	5.5
Net interest income	99.8	68.9
Provision for loan losses	2.1	1.7
Net interest income after provision for loan losses	97.7	67.2
Non-interest income:		
Payment services revenues	10.5	8.4
Mortgage banking revenues	5.4	6.5
Wealth management revenues	5.9	5.0
Service charges on deposit accounts	5.6	4.4
Other service charges, commissions and fees	3.9	2.7
Investment securities gains (losses), net	—	—
Other income	3.9	2.1
Total non-interest income	35.2	29.1
Non-interest expense:		
Salaries and wages	34.6	25.7
Employee benefits	11.3	9.6
Outsourced technology services	7.0	5.3
Occupancy, net	6.3	4.8
Furniture and equipment	3.1	2.3
OREO expense, net of income	0.2	—
Professional fees	1.2	1.0
FDIC insurance premiums	1.5	0.9
Mortgage servicing rights amortization	0.8	0.6
Mortgage servicing rights recovery	—	(0.1)
Core deposit intangibles amortization	1.8	0.6
Other expenses	15.8	12.3
Acquisition related expenses	2.3	0.7
Total non-interest expense	85.9	63.7

Income before income tax expense	47.0	32.6
Income tax expense	10.3	9.4
Net income	$36.7	$ 23.2
Earnings per common share (Basic)	$0.65	$ 0.52
Earnings per common share (Diluted)	$0.65	$ 0.51
Weighted average common shares outstanding (Basic)	56,241,401	44,680,258
Weighted average common shares outstanding (Diluted)	56,652,457	45,238,908

See accompanying notes to unaudited consolidated financial statements.

4

Table of Contents

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	$36.7	$23.2
Other comprehensive income, before tax:		
Investment securities available-for sale:		
Change in net unrealized (losses) gains during period	(23.7)	9.3
Change in unamortized loss on available-for-sale securities transferred into held-to-maturity	0.5	0.5
Defined benefit post-retirement benefits plans:		
Change in net actuarial gain	(0.1)	(0.7)
Other comprehensive income, before tax	(23.3)	9.1
Deferred tax benefit (expense) related to other comprehensive income	6.1	(3.6)
Other comprehensive (loss) income, net of tax	(17.2)	5.5
Comprehensive income, net of tax	$19.5	$28.7

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In millions, except share and per share data)
(Unaudited)

	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2017	$ 687.0	$ 752.6	$ (12.0)	$ 1,427.6
Net income	—	36.7	—	36.7
Reclassification of the income tax effects of the Tax Cut and Jobs Act from AOCI	—	3.1	(3.1)	—
Other comprehensive loss, net of tax expense	—	—	(17.2)	(17.2)
Common stock transactions:				
21,700 Common shares purchased and retired	(0.9)	—	—	(0.9)
204,991 Non-vested common shares issued	—	—	—	—
16,581 Non-vested common shares forfeited	—	—	—	—
67,146 stock options exercised, net of 20,469 shares tendered in payment of option price and income tax withholding amounts	0.8	—	—	0.8
Stock-based compensation expense	1.1	—	—	1.1
Common cash dividend declared ($0.28 per share)	—	(15.7)	—	(15.7)
Balance at March 31, 2018	$ 688.0	$ 776.7	$ (32.3)	$ 1,432.4
Balance at December 31, 2016	$ 296.1	$ 694.6	$ (8.1)	$ 982.6
Net income	—	23.2	—	23.2
Other comprehensive income, net of tax expense	—	—	5.5	5.5
Common stock transactions:				
20,621 common shares purchased and retired	(0.9)	—	—	(0.9)
200 common shares issued	—	—	—	—
132,531 non-vested common shares issued	—	—	—	—
7,214 non-vested common shares forfeited	—	—	—	—
112,936 stock options exercised, net of 43,534 shares tendered in payment of option price and income tax withholding amounts	1.1	—	—	1.1
Stock-based compensation expense	0.9	—	—	0.9
Common cash dividend declared ($0.24 per share)	—	(10.8)	—	(10.8)
Balance at March 31, 2017	$ 297.2	$ 707.0	$ (2.6)	$ 1,001.6

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net income	$36.7	$23.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2.1	1.7
Net loss on disposal of premises and equipment	—	0.1
Depreciation and amortization	6.6	4.6
Net premium amortization on investment securities	2.8	2.8
Realized and unrealized net gains on mortgage banking activities	(1.6)	(4.9)
Net loss on sale of OREO	—	0.2
Mortgage servicing rights recovery	—	(0.1)
Deferred tax expenses	10.1	2.0
Net increase in cash surrender value of company-owned life insurance	(1.3)	(1.1)
Stock-based compensation expense	1.1	0.9
Originations of mortgage loans held for sale	(204.1)	(193.1)
Proceeds from sales of mortgage loans held for sale	218.8	235.0
Changes in operating assets and liabilities, net of effects of acquisition:		
(Increase) decrease in interest receivable	(0.9)	2.1
Decrease in other assets	3.9	1.7
Increase (decrease) in accrued interest payable	0.1	(0.6)
Decrease in accounts payable and accrued expenses	(10.9)	(1.5)
Net cash provided by operating activities	63.4	73.0
Cash flows from investing activities:		
Purchases of investment securities:		
Held-to-maturity	—	(0.9)
Available-for-sale	(212.9)	(113.4)
Proceeds from maturities and pay-downs of investment securities:		
Held-to-maturity	22.2	22.8
Available-for-sale	114.9	74.5
Extensions of credit to customers, net of repayments	(53.3)	36.0
Recoveries of loans charged-off	4.5	2.1
Proceeds from sale of OREO	0.3	0.7
Acquisition of intangible assets	—	(28.0)
Capital expenditures, net of sales	(2.4)	(4.4)
Net cash used in investing activities	$(126.7)	$(10.6)

Table of Contents

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from financing activities:		
Net increase (decrease) in deposits	$91.0	$(75.9)
Net (decrease) increase in securities sold under repurchase agreements	(9.2)	50.0
Net decrease in other borrowed funds	(20.0)	—
Advances on long-term debt	2.6	—
Proceeds from issuance of common stock	0.8	1.1
Purchase and retirement of common stock	(0.9)	(0.9)
Dividends paid to common stockholders	(15.7)	(10.8)
Net cash provided by (cash used) in financing activities	48.6	(36.5)
Net increases (decrease) in cash and cash equivalents	(14.7)	25.9
Cash and cash equivalents at beginning of period	758.9	782.0
Cash and cash equivalents at end of period	$744.2	$807.9
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$4.6	$28.8
Cash paid during the period for interest expense	7.7	6.2
Supplemental disclosures of noncash investing and financing activities:		
Transfer of loans to loans held for sale	$0.5	$—
Transfer of loans to other real estate owned	1.2	0.4
Capitalization of internally originated mortgage servicing rights	1.3	1.5

See accompanying notes to unaudited consolidated financial statements.

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

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements of First Interstate BancSystem, Inc. and subsidiaries (the "Company") contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the financial position of the Company at March 31, 2018 and December 31, 2017, the results of operations for each of the three month periods ended March 31, 2018 and 2017, and cash flows and changes in stockholders' equity for each of the three month periods ended March 31, 2018 and 2017, in conformity with U.S. generally accepted accounting principles. The balance sheet information at December 31, 2017 is derived from audited consolidated financial statements. Certain reclassifications, none of which were material, have been made to conform prior year financial statements to the March 31, 2018 presentation. These reclassifications did not change previously reported net income or stockholders' equity.

Revenue Recognition

Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The new revenue recognition standards became effective for the Company on January 1, 2018.

The majority of our revenue-generating transactions were not subject to ASC 606, including revenue generated from financial instruments, such as our loans, guarantees, derivatives and investment securities, as well as revenue related to our mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. ASC 606 is applicable to non-interest revenue streams such as wealth management and trust fee income, service charges on deposit accounts, interchange and other fees, and annuity and insurance commissions. However, the recognition of these revenue streams did not change significantly upon the adoption of ASC 606. Substantially all of the Company's revenue is generated from contracts with customers. Descriptions of our revenue-generating activities that are within the scope of ASC 606 are discussed below:

- Wealth management and trust fee income - this represents monthly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management and trust services include custody of assets, investment management, fees for trust services and similar fiduciary activities. Revenue is recognized when our performance obligation is completed. The Company does not earn performance-based incentives. Optional services such as settlement, court, and regulatory fees are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred).

- Service charges on deposit accounts - these represent general service fees for account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed for account maintenance services or when a transaction has been completed (such as a wire transfer or check orders). Payment for such performance obligations are generally received at a point in time when the performance obligations are satisfied.

- Interchange and other fees - these fees primarily represent debit and credit card income comprised of interchange fees earned whenever the Company’s debit and credit cards are processed through card payment networks such as Mastercard. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income primarily represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Swap fee income primarily represents income associated with the execution of dealer bank swap agreements. Other service charges include revenue from processing wire transfers, bill pay service, cashier’s checks, and other services. The Company’s performance obligation for interchange and other service charges are largely satisfied, and related revenue recognized, when completion of the services are rendered at a point in time.

- Annuity and Insurance commissions - these primarily represent commissions received on annuity product sales. The Company acts as an intermediary between the Company's customer and the insurance carrier. The Company's performance obligation is generally satisfied upon the issuance of the annuity policy, the carrier then remits the commission payment to the Company, and the Company recognizes the revenue at a point in time.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

(2) Acquisitions

Cascade Bancorp. On November 17, 2016, the Company entered into an agreement and plan of merger (the "Agreement") to acquire all of the outstanding stock of Cascade Bancorp ("Cascade"), parent company of Bank of the Cascades, an Oregon-based community bank with 46 banking offices across Oregon, Idaho, and Washington. This transaction solidifies the Company's ability to strategically expand its community banking footprint in the Northwest corridor of the United States. The merger was completed on May 30, 2017. Holders of each share of Cascade common stock received 0.14864 shares of First Interstate Class A common stock and $1.91 in cash, without interest, for each share of Cascade common stock. In connection with the merger, the Company issued approximately 11.3 million shares of First Interstate Class A common stock, which was valued at $34.30 per share, which was the closing price of First Interstate Class A common stock on the acquisition date. Cash paid by First Interstate was approximately $155.0 million, which included the cash portion of the merger consideration and the cash in lieu of fractional shares that Cascade Bancorp shareholders would have otherwise been entitled to receive. Total consideration exchanged in connection with the merger amounted to $541.0 million.

All "in-the-money" Cascade options and all Cascade restricted stock units outstanding immediately prior to the transaction close were canceled in exchange for the right to receive a cash payment as provided in the Agreement. The Company paid approximately $9.3 million in cash related to Cascade options and restricted stock units, which was included in the consideration paid.
Unvested Cascade restricted stock awards outstanding immediately prior to the transaction close were canceled in exchange for the right to receive a cash payment and Company shares as provided in the Agreement. The Company paid a total of approximately $2.2 million in cash and issued approximately 168 thousand Company shares, valued at $34.30 per share, related to Cascade unvested restricted stock awards. Of the cash paid and shares issued related to Cascade unvested restricted stock awards, approximately $2.4 million was allocated to expense and excluded from consideration paid due to the acceleration of award vesting at the Company's discretion. The remaining balance of approximately $5.5 million related to unvested Cascade restricted stock awards is included in the consideration paid.
The assets and liabilities of Cascade were recorded in the Company's consolidated financial statements at their estimated fair values as of the acquisition date. The excess value of the consideration paid over the fair value of assets acquired and liabilities assumed is recorded as goodwill. The purchase price allocation resulted in goodwill of $232.8 million, which is not deductible for income tax purposes. Goodwill resulting from the acquisition was allocated to the Company's one operating segment, community banking, and consists largely of the synergies and economies of scale

expected from combining the operations of Cascade and the Company.

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

The following table summarizes the consideration paid, fair values of the Cascade assets acquired and liabilities assumed, and the resulting goodwill. All amounts are final.

As of May 30, 2017	As Recorded by Cascade	Fair Value Adjustments		As Recorded by the Company
Assets acquired:				
Cash and cash equivalents	$ 246.8	$ —		$ 246.8
Investment securities	476.7	4.9	(1)	481.6
Loans held for investment	2,111.0	(31.7)	(2)	2,079.3
Mortgage loans held for sale	10.3	—		10.3
Allowance for loan loss	(24.0)	24.0	(3)	—
Premises and equipment	46.6	0.1	(4)	46.7
Other real estate owned ("OREO")	1.2	—		1.2
Core deposit intangible assets	—	48.0	(5)	48.0
Deferred tax assets, net	47.6	(20.9)	(6)	26.7
Other assets	98.6	2.1	(7)	100.7
Total assets acquired	3,014.8	26.5		3,041.3
Liabilities assumed:				
Deposits	2,669.9	(0.9)	(8)	2,669.0
Accounts Payable and Accrued Expense	62.2	1.9	(9)	64.1
Total liabilities assumed	2,732.1	1.0		2,733.1
Net assets acquired	$ 282.7	$ 25.5		$ 308.2
Consideration paid:				
Cash				$ 155.0
Class A common stock				386.0
Total consideration paid				541.0
Goodwill				$ 232.8

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

Explanation of fair value adjustments. Note marks for the deferred tax assets and other assets were updated since prior quarter. Certain other balances have been reclassified, none of which are material. The adjustment resulted in a net increase to goodwill of $0.9 million from fourth quarter reported balances.

(1) Write up of the book value of investments to their estimated fair values on the date of acquisition based upon quotes obtained from an independent third party pricing service.

(2) Write down of the book value of loans to their estimated fair values. Shared National Credits (SNC) were recorded at quoted sales prices where available. The fair value of the remaining loans was estimated using cash flow projections based on the remaining maturity and repricing terms, adjusted for estimated future credit losses and prepayments and discounted to present value using a risk-adjusted market rate for similar loans. The fair value of collateral dependent loans acquired with deteriorated credit quality was estimated based on the Company's analysis of the fair value of each loan's underlying collateral, discounted using market-derived rates of return with consideration given to the period of time and costs associated with foreclosure and disposition of the collateral.

(3) Adjustment to remove the Cascade allowance for loan losses at acquisition date, as the credit risk is included in the fair value adjustment for loans receivable described in (2) above.

(4) Write up of the book value of premises and equipment to their estimated fair values on the date of acquisition based upon appraisals obtained from an independent third party appraiser or broker's opinion of value.

(5) Adjustment represents the value of the core deposit base assumed in the acquisition based upon valuation from an independent accounting and advisory firm.

(6) Adjustment consists of the write-off of pre-existing deferred tax assets and purchase accounting adjustments as a result of the acquisition.

(7) Adjustment consists of various other assets recorded as a result of the acquisition, including mortgage servicing rights, SBA servicing rights, and favorable leases offset by reductions to the fair value of other items.

(8) Decrease in book value of time deposits to their estimated fair values based upon interest rates of similar time deposits with similar terms on the date of acquisition based upon valuation from an independent accounting and advisory firm.

(9) Increase in fair value due to credit card incentive program, unfavorable leases, write-off of balance sheet reserve, and swap liability offset.

Core deposit intangible assets of $48.0 million are being amortized using an accelerated method over the estimated useful lives of the related deposits of 10 years.

The Company recorded $2.3 million and $0.7 million in pre-tax acquisition related expenses for the three months ended March 31, 2018 and March 31, 2017. These costs are incorporated in non-interest expenses in the Company’s consolidated statements of income and are summarized below.

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Legal and Professional Fees	$ 0.5	$ 0.6
Employee Expenses	0.1	—
Technology Conversion and Contract Termination	1.5	—
Other	0.2	0.1

Total Acquisition Related Expenses	$ 2.3	$ 0.7

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

The Company acquired certain loans that are subject to Accounting Standards Codification ("ASC") Topic 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality." ASC Topic 310-30 provides recognition, measurement and disclosure guidance for acquired loans that have evidence of deterioration in credit quality since origination for which it is probable, at acquisition, the Company will be unable to collect all contractual amounts owed. For loans that meet the criteria stipulated in ASC Topic 310-30, the excess of all cash flows expected at acquisition over the initial fair value of the loans acquired ("accretable yield") is amortized to interest income over the expected remaining lives of the underlying loans using the effective interest method. The accretable yield will fluctuate due to changes in (i) estimated lives of underling credit-impaired loans, (ii) assumptions regarding future principal and interest amounts collected, and (iii) indices used to fair value variable rate loans.
Information regarding loans acquired credit-impaired as of the May 30, 2017 acquisition date is as follows:

Contractually required principal and interest payments	$49.7
Contractual cash flows not expected to be collected ("non-accretable discount")	24.7
Cash flows expected to be collected	25.0
Interest component of cash flows expected to be collected ("accretable discount")	1.9
Fair value of acquired credit-impaired loans	$23.1

Information regarding acquired loans not deemed credit-impaired at the acquisition date is as follows:

Contractually required principal and interest payments	$2,098.1
Contractual cash flows not expected to be collected due to projected prepayment	23.3
Fair value at acquisition	$2,066.5

The accompanying consolidated statements of income include the results of operations of the acquired entity from the May 30, 2017 acquisition date. The acquired entity continued to operate as Bank of the Cascades until August 11, 2017 at which point the operations were integrated with the Company's operations, and Bank of the Cascades merged with First Interstate Bank. Standalone amounts for the Bank of the Cascades were no longer available after that date.

The following table presents unaudited pro forma consolidated revenues and net income as if the acquisition had occurred as of January 1, 2016.

	Three Months Ended March 31,	
	2018	2017
Interest income	$107.6	$100.1
Non-interest income	35.2	36.6
Total revenues	$142.8	$136.7
Net income	$35.9	$29.2
EPS - basic	$0.63	$0.52
EPS - diluted	0.63	0.52

The unaudited pro forma net income presented in the table above for 2017 was adjusted to exclude acquisition-related costs, including change in control expenses related to employee benefit plans and legal and professional expenses of $0.5 million, net of tax. The unaudited pro forma net income presented in the table above for 2018 and 2017 includes adjustments for scheduled amortization of core deposit intangible assets acquired in the acquisition. The unaudited supplemental pro forma net income presented in the table above for 2018 and 2017 does not capture operating costs savings and other business synergies expected as a result of the acquisition.

(Dollars in millions, except share and per share data)

(3) Goodwill and Core Deposit Intangibles

Management analyzes its goodwill for impairment on an annual basis and between annual tests in certain circumstances, such as upon material adverse changes in legal, business, regulatory and economic factors. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Company performed an impairment assessment as of July 1, 2017 and 2016 and concluded that there was no impairment to goodwill.

Goodwill

	As of March 31,	
	2018	2017
Net carrying value at beginning of period	$444.7	$212.8
Addition to goodwill from acquisition	—	—
Measurement period adjustment to previously recorded goodwill	0.9	—
Net carrying value at end of period	$445.6	$212.8

Core deposit intangibles (“CDI”)

	Three Months Ended March 31,	
	2018	2017
CDI, net, beginning of period	$49.1	$9.7
CDI current period amortization	(1.8)	(0.6)
Total CDI, net, end of period	$47.3	$9.1

Core deposit intangibles are evaluated for impairment if events and circumstances indicate a possible impairment. The CDI are amortized using an accelerated method based on the estimated weighted average useful lives of the related deposits, which is generally ten years.

The following table provides the estimated future CDI amortization expense:

Years Ending December 31,	
2018 remaining	$5.2
2019	6.6
2020	6.2
2021	5.7
2022	5.3
Thereafter	18.3
Total	$47.3

Table of Contents

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

(4) Investment Securities

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

March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
U.S. Treasury notes	$ 3.2	$ —	$ —	$ 3.2
Obligations of U.S. government agencies	562.8	—	(13.0)	549.8
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	1,578.2	1.9	(30.8)	1,549.3
Private mortgage-backed securities	84.7	—	(1.5)	83.2
Corporate securities	93.1	0.1	(1.0)	92.2
Other investments	3.0	—	—	3.0
Total	$ 2,325.0	$ 2.0	$ (46.3)	$ 2,280.7

March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity:				
State, county and municipal securities	$ 168.3	$ 1.8	$ (1.3)	$ 168.8
Obligations of U.S. government agencies	19.8	—	(0.3)	19.5
U.S agency residential mortgage-backed securities & collateralized mortgage obligations	217.6	7.7	(14.1)	211.2
Corporate securities	56.5	0.1	(0.7)	55.9
Other investments	0.1	—	—	0.1
Total	$ 462.3	$ 9.6	$ (16.4)	$ 455.5

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
U.S. Treasury notes	$ 3.2	$ —	$ —	$ 3.2
Obligations of U.S. government agencies	569.5	—	(8.0)	561.5
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	1,474.1	3.8	(15.4)	1,462.5
Private mortgage-backed securities	91.5	—	(0.8)	90.7
Corporate securities	88.0	0.1	(0.3)	87.8
Other investments	3.0	—	—	3.0
Total	$ 2,229.3	$ 3.9	$ (24.5)	$ 2,208.7

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity:				
State, county and municipal securities	$ 172.4	$ 2.6	$ (0.6)	$ 174.4
Obligations of U.S. government agencies	19.8	—	(0.2)	19.6

U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	230.5	8.8	(11.6	) 227.7
Corporate securities	61.6	0.1	(0.3	) 61.4
Other investments	0.2	—	—	0.2
Total	$ 484.5	$ 11.5	$ (12.7	) $ 483.3

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

There were no material gross realized gains and losses from the disposition of available-for-sale investment securities for the three months ended March 31, 2018 and 2017.

The following tables show the gross unrealized losses and fair values of investment securities, aggregated by investment category, and the length of time individual investment securities have been in a continuous unrealized loss position, as of March 31, 2018 and December 31, 2017:

	Less than 12 Months		12 Months or More		Total	
March 31, 2018	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale:						
Obligations of U.S. government agencies	$310.1	$ (7.0)	$239.7	$ (6.0)	$549.8	$ (13.0)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	954.2	(17.5)	408.4	(13.3)	1,362.6	(30.8)
Private mortgage-backed securities	74.7	(1.5)	—	—	74.7	(1.5)
Corporate securities	60.8	(1.0)	—	—	60.8	(1.0)
Total	$1,399.8	$ (27.0)	$648.1	$ (19.3)	$2,047.9	$ (46.3)

	Less than 12 Months		12 Months or More		Total	
March 31, 2018	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity:						
State, county and municipal securities	$74.0	$ (1.0)	$11.7	$ (0.3)	$85.7	$ (1.3)
Obligations of U.S. government agencies	9.6	(0.1)	9.9	(0.2)	19.5	(0.3)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	85.6	(11.0)	47.2	(3.1)	132.8	(14.1)
Corporate securities	44.8	(0.6)	4.9	(0.1)	49.7	(0.7)
Total	$214.0	$ (12.7)	$73.7	$ (3.7)	$287.7	$ (16.4)

	Less than 12 Months		12 Months or More		Total	
December 31, 2017	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale:						
Obligations of U.S. government agencies	$284.9	$ (3.4)	$266.1	$ (4.6)	$551.0	$ (8.0)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	670.1	(6.2)	439.2	(9.2)	1,109.3	(15.4)
Private mortgage-backed securities	74.0	(0.8)	—	—	74.0	(0.8)
Corporate securities	51.3	(0.3)	—	—	51.3	(0.3)
Total	$1,080.3	$ (10.7)	$705.3	$ (13.8)	$1,785.6	$ (24.5)

	Less than 12 Months	12 Months or More	Total

December 31, 2017	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity:						
State, county and municipal securities	$53.3	$ (0.4)	$12.3	$ (0.2)	$65.6	$ (0.6)
Obligations of U.S. government agencies	9.7	—	9.9	(0.2)	19.6	(0.2)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	76.4	(9.1)	60.5	(2.5)	136.9	(11.6)
Corporate securities	41.2	(0.2)	5.0	(0.1)	46.2	(0.3)
Total	$180.6	$ (9.7)	$87.7	$ (3.0)	$268.3	$ (12.7)

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

The investment portfolio is evaluated quarterly for other-than-temporary declines in the market value of each individual investment security. The Company had 707 and 581 individual investment securities that were in an unrealized loss position as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, the Company had the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery. Furthermore, the Company does not have the intent to sell any of the available-for-sale securities in the above table and it is more likely than not that the Company will not have to sell any securities before a recovery in cost. No impairment losses were recorded during three months ended March 31, 2018 or 2017.

Maturities of investment securities at March 31, 2018 are shown below. Maturities of mortgage-backed securities have been adjusted to reflect shorter maturities based upon estimated prepayments of principal. All other investment securities maturities are shown at contractual maturity dates.

	Available-for-Sale		Held-to-Maturity	
March 31, 2018	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$433.0	$426.3	$61.4	$61.2
After one year but within five years	1,445.7	1,417.8	247.2	241.6
After five years but within ten years	278.8	272.2	121.0	120.8
After ten years	167.5	164.4	32.7	31.9
Total	$2,325.0	$2,280.7	$462.3	$455.5

As of March 31, 2018, the Company had investment securities callable within one year with amortized costs and estimated fair values of $147.5 million and $144.4 million, respectively. These investment securities are primarily included in the after one year but within five years category in the table above. As of March 31, 2018, the Company did not have any structured notes callable within one year.

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

(5) Loans

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

	March 31, 2018	December 31, 2017
Real estate loans:		
Commercial	$2,821.9	$2,822.9
Construction:		
Land acquisition & development	364.6	348.7
Residential	230.6	240.2
Commercial	140.8	119.4
Total construction loans	736.0	708.3
Residential	1,486.6	1,487.4
Agricultural	156.9	158.2
Total real estate loans	5,201.4	5,176.8
Consumer:		
Indirect consumer	782.9	784.7
Other consumer	173.0	175.1
Credit card	75.2	74.6
Total consumer loans	1,031.1	1,034.4
Commercial	1,244.1	1,215.4
Agricultural	133.9	136.2
Other, including overdrafts	4.0	4.9
Loans held for investment	7,614.5	7,567.7
Mortgage loans held for sale	32.3	46.6
Total loans	$7,646.8	$7,614.3

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

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

As of March 31, 2018	30 - 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Loans 30 or More Days Past Due	Current Loans	Non-accrual Loans	Total Loans
Real estate							
Commercial	$4.4	$1.0	$0.5	$5.9	$2,792.2	$ 23.8	$2,821.9
Construction:							
Land acquisition & development	0.7	0.2	0.3	1.2	360.3	3.1	364.6
Residential	3.5	0.7	—	4.2	225.7	0.7	230.6
Commercial	0.1	—	—	0.1	136.9	3.8	140.8
Total construction loans	4.3	0.9	0.3	5.5	722.9	7.6	736.0
Residential	3.5	6.8	0.6	10.9	1,469.2	6.5	1,486.6
Agricultural	2.2	8.4	0.1	10.7	141.6	4.6	156.9
Total real estate loans	14.4	17.1	1.5	33.0	5,125.9	42.5	5,201.4
Consumer:							
Indirect consumer	5.5	0.9	0.5	6.9	774.1	1.9	782.9
Other consumer	1.2	0.3	—	1.5	171.1	0.4	173.0
Credit card	0.7	0.4	0.7	1.8	73.4	—	75.2
Total consumer loans	7.4	1.6	1.2	10.2	1,018.6	2.3	1,031.1
Commercial	6.7	4.9	1.0	12.6	1,215.1	16.4	1,244.1
Agricultural	1.2	0.3	—	1.5	130.5	1.9	133.9
Other, including overdrafts	—	—	—	—	4.0	—	4.0
Loans held for investment	29.7	23.9	3.7	57.3	7,494.1	63.1	7,614.5
Mortgage loans originated for sale	—	—	—	—	32.3	—	32.3
Total loans	$29.7	$23.9	$3.7	$ 57.3	$7,526.4	$ 63.1	$7,646.8

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

As of December 31, 2017	30 - 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Loans 30 or More Days Past Due	Current Loans	Non-accrual Loans	Total Loans
Real estate							
Commercial	$2.9	$0.5	$0.3	$3.7	$2,792.4	$ 26.8	$2,822.9
Construction:							
Land acquisition & development	7.3	0.3	0.3	7.9	337.8	3.0	348.7
Residential	2.1	—	—	2.1	236.4	1.7	240.2
Commercial	—	—	—	—	115.6	3.8	119.4
Total construction loans	9.4	0.3	0.3	10.0	689.8	8.5	708.3
Residential	13.3	1.4	0.4	15.1	1,464.1	8.2	1,487.4
Agricultural	0.3	—	0.2	0.5	154.3	3.4	158.2
Total real estate loans	25.9	2.2	1.2	29.3	5,100.6	46.9	5,176.8
Consumer:							
Indirect consumer	7.8	2.1	0.4	10.3	772.6	1.8	784.7
Other consumer	1.6	0.5	0.1	2.2	172.6	0.3	175.1
Credit card	0.9	0.6	0.7	2.2	72.4	—	74.6
Total consumer loans	10.3	3.2	1.2	14.7	1,017.6	2.1	1,034.4
Commercial	3.9	1.7	0.7	6.3	1,189.5	19.6	1,215.4
Agricultural	1.8	0.1	—	1.9	133.5	0.8	136.2
Other, including overdrafts	—	—	—	—	4.9	—	4.9
Loans held for investment	41.9	7.2	3.1	52.2	7,446.1	69.4	7,567.7
Mortgage loans originated for sale	—	—	—	—	46.6	—	46.6
Total loans	$41.9	$7.2	$3.1	$52.2	$7,492.7	$ 69.4	$7,614.3

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

The following table displays the outstanding unpaid balances and accrual status of loans acquired with credit impairment as of March 31, 2018 and 2017:

	As of March 31,	
	2018	2017
Outstanding balance	$33.5	$32.6
Carrying value		
Loans on accrual status	20.7	18.9
Total carrying value	$20.7	$18.9

The following table summarizes changes in the accretable yield for loans acquired credit impaired for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Beginning balance	$7.3	$6.8
Accretion income	(0.7)	(0.6)
Reductions due to exit events	(0.2)	(0.6)
Reclassifications from nonaccretable differences	0.8	0.8
Ending balance	$7.2	$6.4

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

Acquired loans that met the criteria for nonaccrual of interest prior to acquisition were considered performing upon acquisition. If interest on non-accrual loans had been accrued, such income would have been approximately $0.8 million and $0.9 million for the three months ended March 31, 2018 and 2017, respectively.

The Company considers impaired loans to include all originated loans, except consumer loans, that are risk rated as doubtful, or have been placed on non-accrual status or renegotiated in troubled debt restructurings, and all loans acquired with evidence of deterioration in credit quality and for which it was probable, at acquisition, that the Company would be unable to collect all contractual amounts owed. The following tables present information on the Company's recorded investment in impaired loans as of dates indicated:

As of March 31, 2018	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	$ 44.0	$ 17.5	$ 16.1	$ 33.6	$ 3.4
Construction:					
Land acquisition & development	9.2	3.4	—	3.4	—
Residential	0.8	0.2	0.5	0.7	0.1
Commercial	4.6	0.3	3.4	3.7	2.1
Total construction loans	14.6	3.9	3.9	7.8	2.2
Residential	9.7	6.2	2.1	8.3	0.4
Agricultural	4.6	4.4	—	4.4	—
Total real estate loans	72.9	32.0	22.1	54.1	6.0
Commercial	25.4	6.7	13.7	20.4	4.5
Agricultural	2.0	1.7	0.3	2.0	0.1
Total	$ 100.3	$ 40.4	$ 36.1	$ 76.5	$ 10.6

As of December 31, 2017	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	$ 45.6	$ 20.9	$ 14.1	$ 35.0	$ 3.9
Construction:					
Land acquisition & development	10.0	3.4	0.5	3.9	—
Residential	1.8	1.7	—	1.7	—
Commercial	4.7	0.4	3.5	3.9	2.2
Total construction loans	16.5	5.5	4.0	9.5	2.2
Residential	11.5	8.2	2.0	10.2	0.1
Agricultural	3.7	3.6	—	3.6	—
Total real estate loans	77.3	38.2	20.1	58.3	6.2
Commercial	29.5	12.4	11.4	23.8	4.4
Agricultural	1.1	0.8	0.3	1.1	0.2
Total	$ 107.9	$ 51.4	$ 31.8	$ 83.2	$ 10.8

21

(Dollars in millions, except share and per share data)

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

	Three Months Ended March 31,			
	2018		2017	
	Average Recorded Investment	Income Recognized	Average Recorded Investment	Income Recognized
Real estate	$56.1	$ —	$66.1	$ 0.2
Consumer	—	—	—	—
Commercial	22.1	—	32.7	—
Agricultural	1.5	—	2.4	—
Total	$79.7	$ —	$101.2	$ 0.2

The amount of interest income recognized by the Company within the period that the loans were impaired was primarily related to loans modified in a troubled debt restructuring that remained on accrual status. Interest payments received on non-accrual impaired loans are applied to principal. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. If interest on impaired loans had been accrued, interest income on impaired loans would have been approximately $0.8 million and $0.9 million for the three months ended March 31, 2018 and 2017, respectively.

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