FIRST INTERSTATE BANCSYSTEM INC
Form 10-K
February 27, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-K
(Mark One)
þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018
or
o 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, Montana (Address of principal executive offices)	59116 (Zip Code)

(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. o Yes þ 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. o Yes þ 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. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). þ Yes o 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. o
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. (Check one):

þ Large accelerated filer	o Accelerated filer	o Non-accelerated filer (Do not check if a smaller reporting company)	o Smaller reporting company
o 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. o

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act.) o Yes þ 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, based upon the closing price per share of the registrant’s common stock as reported on the NASDAQ, as of the last business day of the registrant’s most recently completed second fiscal quarter, was $1,544,721,547.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock as of January 31, 2019:

Class A common stock 38,179,174

Class B common stock 22,451,963

Documents Incorporated by Reference

The registrant intends to file a definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 2, 2019. The information required by Part III of this Form 10-K is incorporated by reference to such Proxy Statement.

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
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December 31, 2018

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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," "First Interstate" 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" or "FIB" 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, headquartered in Billings, Montana. Our Class A common stock is listed on the NASDAQ under the symbol "FIBK." As of December 31, 2018, we had consolidated assets of $13.3 billion, deposits of $10.7 billion, total loans of $8.5 billion, and total stockholders' equity of $1.7 billion. We currently operate 147 banking offices, including detached drive-up facilities, in communities across Idaho, Montana, Oregon, South Dakota, Washington, and Wyoming in addition to Internet and mobile banking services. Through our bank 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 agriculture, construction, education, energy, governmental services, healthcare, mining, professional services, retail, technology, tourism, and wholesale trade.

Our goal is to be the premier financial services provider within the communities we serve. With that as the backdrop, we are committed to being a leader in the financial and social fabric of our communities by continuously strengthening our relationships with our employees and our clients while driving long-term shareholder value. As a community bank we adhere to six common values that provide a foundation for our growth and success. They are: (1) we put people first; (2) we strive for excellence; (3) we act with integrity; (4) we embrace change; (5) we are committed to our communities; and (6) we celebrate success. These values support our commitment to our employees, our clients, our communities, and our shareholders.

We have grown our business by adhering to this set of values and we have a long-term perspective that emphasizes providing high-quality financial products and services, delivering exceptional client service, influencing business leadership through professional and dedicated managers and employees, assisting our communities through financial contributions and socially responsible leadership, and cultivating a strong corporate culture. In addition, we plan to continue to expand our business in a disciplined and prudent manner, fueled by organic growth in our existing market areas and expansion into new and complementary markets when appropriate opportunities arise.

Recent Acquisitions

On August 16, 2018, the Company completed its acquisition of Northwest Bancorporation, Inc. ("Northwest"), the parent company of Inland Northwest Bank ("INB"), a Spokane, Washington based community bank with 20 banking offices across Idaho, Oregon, and Washington. Consideration for the acquisition totaled $176.3 million, consisting of the issuance of 3.84 million shares of the Company's Class A common stock valued at $45.15 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock exchange on the acquisition date. The Company paid approximately $3.0 million in cash related to Northwest warrants, which was included in the consideration paid. Holders of each share of Northwest common stock received 0.516 shares of First Interstate Class A common stock for each share of Northwest common stock. Additionally, all Northwest stock purchase warrants

outstanding immediately prior to the close of the transaction were canceled in exchange for the right to receive a cash payment as provided in the Agreement. Unvested Northwest restricted stock awards outstanding immediately prior to the close of the transaction vested and were considered issued and outstanding at acquisition close. Integration of INB into FIB was completed on November 9, 2018.

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On May 30, 2017, we acquired all of the outstanding stock of Cascade Bancorp, parent company of Bank of the Cascades (“BOTC”), an Oregon-based community bank with 46 banking offices across Oregon, Idaho and Washington. Each outstanding share of Cascade Bancorp converted into the right to receive 0.14864 shares of our Class A common stock and $1.91 in cash. The merger consideration represented an aggregate purchase price of $541.0 million. With the completion of the merger, we became a regional community bank with a geographic footprint that spans Idaho, Montana, Oregon, South Dakota, Washington, and Wyoming. Integration of BOTC into FIB was completed on August 11, 2017.

On August 12, 2016, we acquired all of the outstanding stock of Flathead Bank of Bigfork, or Flathead Bank, a wholly-owned subsidiary of Flathead Holding Company of Bigfork, with branches located in Western and Northwestern Montana. The acquisition was completed for cash consideration of $34.1 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” included in Part IV, Item 15.

Pending Acquisitions

On October 11, 2018, the Company entered into a definitive agreement to acquire all of the outstanding stock of Idaho Independent Bank ("IIBK"), a community bank headquartered in Coeur d' Alene, Idaho with 11 banking offices across Idaho, in an all-stock transaction valued at approximately $181.3 million in aggregate, or $22.73 per share of IIBK stock, based on a per share price of First Interstate Class A common stock of $45.45 per share as of October 5, 2018. IIBK shareholders will be entitled to receive 0.50 shares of First Interstate Class A common stock for each share of IIBK common stock they own. The transaction has been approved by the boards of directors of both companies and is expected to close and convert data processing systems in the second quarter of 2019, subject to customary conditions, including regulatory and shareholder approvals.

Also on October 11, 2018, the Company entered into a definitive agreement to acquire all of the outstanding stock of Community 1st Bank ("CMYF"), a community bank headquartered in Post Falls, Idaho with three banking offices in North Idaho, in an all-stock transaction valued at approximately $21.5 million in aggregate, or $17.20 per share of CMYF stock, based on a per share price of First Interstate Class A common stock of $45.45 per share as of October 5, 2018. CMYF stockholders will be entitled to receive 0.3784 shares of First Interstate Class A common stock for each share of CMYF common stock they own. The transaction has been approved by the boards of directors of both companies and is expected to close and convert data processing systems in the second quarter of 2019, subject to customary conditions, including regulatory and shareholder approvals.

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” included in Part IV, Item 15. For additional information regarding risks associated with the pending acquisition, see "Risk Factors" included in Item 1A herein.

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 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. 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 and remaining focused on our overall financial performance.

Lending Activities

We offer 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 our market footprint 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) include medium-term fixed interest rates or variable rates that 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, with exceptions noted, as part of the loan approval process.

While each loan must meet minimum underwriting standards established in our credit policies, lending officers and branch loan officers are granted levels of credit 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. Credit authorities are established and assigned based on the credit experience and credit acumen of each branch loan officer. Credit authority is under the direction of our Chief Credit Officer or such officer's designee and is reviewed on an ongoing basis. Credits over the authority of branch loan officers are approved by our credit risk management group.

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, ("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.

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 risk management, finance, accounting, human resource management, internal audit, facilities management, technology,

risk management, compliance and other support services.

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Market Area

The following table reflects our deposit market share and branch locations by state, inclusive of INB:
Deposit Market Share and Branch Locations by State

	% of Market Deposits (1)	Deposit Market Share Rank (1)	Number of Branches (2)
Montana	17.83%	2nd	48
Idaho	2.53	12th	17
Oregon	2.42	9th	33
South Dakota	0.14	12th	15
Washington	0.38	30th	18
Wyoming	15.53	2nd	16
Total			147

(1) Source: FDIC.gov-data as of June 30, 2018.
(2) As of December 31, 2018.

We operate in markets that have a diverse employment base covering numerous industries and we believe our community bank approach to providing client service is a competitive advantage that strengthens the Company's ability to effectively provide financial products and services to businesses and individuals in its markets.

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 services such as 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, 2018, we employed 2,330 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 summarize all laws and regulations applicable to us. 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. In addition to laws and regulations, state and federal banking regulatory agencies may issue policy statements, interpretive letters and similar written guidance

that may impose additional regulatory obligations or otherwise affect the conduct of our business. Additionally, proposals to change laws and regulations are frequently introduced at both the federal and state levels. The likelihood and timing of any such changes and their impact on the Company cannot be determined with any certainty.

As a public company, we are subject to the disclosure and regulatory requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as administered by the Securities and Exchange Commission ("SEC").

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 Board of Governors of the Federal Reserve System ("Federal Reserve").

The Bank is subject to supervision and regular examination by its primary banking regulators, the Federal Reserve, the Montana Department of Administration, Division of Banking and Financial Institutions ("Montana Division"), and the Consumer Financial Protection Bureau ("CFPB").

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

The Company and the Bank are currently subject to the regulatory capital framework and guidelines reached by Basel III as adopted by the Office of the Comptroller of the Currency ("OCC"), and Federal Reserve. The OCC and Federal Reserve have risk-based capital adequacy guidelines intended to measure capital adequacy with regard to a banking organization's balance sheet, including off-balance sheet exposures such as unused portions of loan commitments, letters of credit, and recourse arrangements.

The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), alters the competitive structure of the debit card payment processing industry and caps debit card interchange fees for banks with over $10 billion in assets. The final rule establishes standards for assessing whether debit card interchange fees received by debit card issuers are reasonable and proportional to the costs incurred by issuers for electronic debit transactions.

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.

Financial and Bank Holding Company

We are a bank holding company and have registered as a financial holding company under regulations issued by the Federal Reserve. 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. We may engage in authorized financial activities, provided that we remain a financial holding company and are "well capitalized" and "well managed." We do not currently engage in significant financial holding company businesses or activities not otherwise permitted for bank holding companies generally.

Under federal law, 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. 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 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. The Federal Reserve considers a number of factors in evaluating acquisitions including,

but not limited to, the financial and managerial resources and future prospects of the parties, the convenience and needs of the communities served, and competitive factors. Under the Dodd-Frank Act, when considering an application, the Federal Reserve is also required to evaluate whether the transaction would result in more concentrated risks to the United States banking or financial system. Under federal law and regulations, a bank holding company may acquire banks in states other than its home state if, among other things, the bank holding company is both “well capitalized” and “well managed” both before and after the acquisition.

Banks may also merge across state lines. With additional changes made to federal statutes under the Dodd-Frank Act, banks are also permitted to establish new interstate branches if a bank located in the target state could establish a new branch at the proposed location without regard to state laws limiting interstate de novo branching. 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. Under Montana law, a bank cannot acquire control of a bank located in Montana if, after the acquisition, the acquiring institution would control, in the aggregate, more than 22% of the total deposits of insured depository institutions located in Montana. As of June 30, 2018, based on publicly available information provided by the FDIC, the Bank controlled approximately 17.8% 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.

In order to assess the financial strength of the bank holding company, the Federal Reserve and the State of Montana may conduct periodic on-site and off-site inspections and credit reviews throughout the year. The federal banking agencies, including the Federal Reserve, may 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.

Dividends and Restrictions on Transfers of Funds

Dividends from the Bank are the primary source of funds for the payment of our operating expenses and for the payment of dividends to our shareholders, and are limited by state and federal laws and regulations. The Company and the Bank are also subject to various regulatory restrictions relating to capital distributions, including dividends, regulatory capital minimums and the requirement to remain “well-capitalized” under the prompt corrective action regulations summarized in the “Capital Standards and Prompt Corrective Action” section below. 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 consent of the Federal Reserve is obtained. In addition, the Bank may not pay dividends in excess of the previous two years’ net earnings without providing notice to the Montana Division.

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 a specified amount which, when fully phased-in, will be 2.5% 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.

The Federal Reserve has issued a policy statement regarding the payment of dividends and the repurchase of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company’s net income for the past four quarters (net of previous capital distributions) is insufficient to fully fund the dividend or the company’s overall rate of earnings retention is inconsistent with the company’s capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes under-capitalized. The policy statement also states that a holding company should inform the Federal Reserve

supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect our ability to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

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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, which 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. The capital requirements are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments and are applied separately to the Bank and the Company.

Federal regulations require FDIC-insured depository institutions and bank holding companies to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

For purposes of the regulatory capital requirements, common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings and is reduced by substantially all of the regulatory deductions including items such as goodwill and other intangibles and certain deferred tax assets. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions like us that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45.0% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one- to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

In assessing an institution's capital adequacy, the Federal Reserve takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements in individual cases where deemed necessary. The Federal Reserve has not established individual capital requirements applicable to us or the Bank.

The Dodd-Frank Act and the revised regulations limit the use of hybrid capital instruments in meeting regulatory capital requirements, including instruments similar to those which we currently have issued and outstanding. At this time, we meet the criteria for grandfathering under the Dodd-Frank Act, therefore, the limitations on use of hybrid capital instruments do not apply to our outstanding instruments. However, once the Company surpasses $15.0 billion in assets, we may lose Tier 1 qualification of trust preferred securities.

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Federal law requires the federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. The law sets forth the following five capital tiers: "well capitalized," "adequately capitalized," "under-capitalized," "significantly under-capitalized" and "critically under-capitalized." 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.

A depository institution is generally prohibited 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 under-capitalized. Under-capitalized institutions may be subject to growth limitations and other restrictions and are required to submit a capital restoration plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly under-capitalized."

"Significantly under-capitalized" depository institutions are subject to additional requirements and restrictions, such as orders to sell sufficient stock to become "adequately capitalized," to reduce total assets, restrict interest rates paid, remove management and directors and cease receipt of deposits from correspondent banks. "Critically under-capitalized" institutions are subject to the appointment of a receiver or conservator.

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 payment of an assessment on the bank stock. If the bank fails to do so, the Department of Administration may, among other things, take charge of the bank and proceed to liquidate the bank.

Restrictions on Transactions with Affiliates, Directors and Officers

Under the Federal Reserve Act, the Bank may not lend funds or otherwise extend credit to us or any other affiliate, except on specified types and amounts of collateral generally upon market terms and conditions. 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 limitations on transactions in which the Bank may engage with us or with other affiliates, including per affiliate and aggregate limits on affiliate transactions.

Federal Reserve Regulation O restricts loans to the Bank and Company insiders, which includes directors, certain 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.

Safety and Soundness Standards and Other Supervisory and Enforcement Mechanisms

The federal banking agencies have adopted guidelines establishing standards for safety and soundness, asset quality and earnings, internal controls and audit systems. These standards are designed to identify potential concerns and ensure action is taken to address those concerns before they pose a risk to the 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 and may take other supervisory action.

Pursuant to the Dodd-Frank Act, federal banking regulators impose additional supervisory measures on banking organizations when they exceed $10 billion in assets. These include enhanced risk management and corporate governance processes and stress-testing requirements based on scenarios specified by the regulators.

The Federal Reserve has authority to bring enforcement action against a bank or bank holding company and all "institution-affiliated parties" of a bank or bank holding company, including directors, officers, stockholders, and under certain circumstances, attorneys, appraisers and accountants for the bank or holding company. Formal enforcement actions may include measures such as the issuance of a capital directive or cease and desist order to removal of officers and/or directors or the appointment of a receiver or conservator. Civil money penalties cover a wide range of violations and actions, and can range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The FDIC also has the authority to terminate deposit insurance or recommend to the Federal Reserve that enforcement action be taken with respect to a particular bank. If such action is not taken, the FDIC has authority to take the action under specified circumstances. Montana law also provides the Montana Division with various enforcement mechanisms and, ultimately, authority to appoint a receiver or conservator for a Montana bank.

Deposit Insurance

The FDIC insures our customer deposits through the DIF up to $250,000 per depositor. The amount of FDIC assessments paid by each DIF member institution is based on financial measures and supervisory ratings derived from a statistical model estimating the probability of failure within a three-year period, with banks deemed more risky paying higher assessment.

The FDIC was required by the Dodd-Frank Act to take actions necessary to cause the DIF to reach a reserve ratio of 1.35% of total estimated insured deposits by September 30, 2020. Consequently, effective July 1, 2016, the FDIC revised its system to impose surcharges on institutions with $10 billion or more in assets and credit smaller institutions for any future payments toward reaching the 1.35% ratio. On September 30, 2018, the Deposit Insurance Fund Reserve Ratio reached 1.36 percent, exceeding the statutorily required minimum reserve ratio of 1.35 percent ahead of the September 30, 2020, deadline required under the Dodd-Frank Act. FDIC regulations provide for two changes to deposit insurance assessments upon reaching the minimum: (1) surcharges on insured depository institutions with total consolidated assets of $10 billion or more (large banks) will cease; and (2) small banks will receive assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from between 1.15 percent and 1.35 percent, to be applied when the reserve ratio is at or above 1.38 percent.

All FDIC-insured institutions are also required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation, or the FICO, an agency of the Federal government established to recapitalize the predecessor to the DIF. The assessment rate is applied to total average assets less tangible equity, as defined under the Dodd-Frank Act. The assessment rate schedule can change from time to time at the discretion of the FDIC, subject to certain limits. Under the current system, premiums are assessed quarterly.

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. Certain of these laws and regulations are described below.

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.

The Real Estate Settlement Procedures Act ("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 ("TILA"), requires 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 CFPB has promulgated numerous regulations relating to consumer financial services-related topics, such as mortgage origination disclosures, mortgage servicing practices, and others.

The Community Reinvestment Act ("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 evaluating applications for such transactions as mergers and new branches.

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 c 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 endeavors to respond pro-actively to any instances of non-compliance and to implement and update appropriate procedures to prevent instances of non-compliance and other violations from occurring.

USA PATRIOT Act

The USA PATRIOT Act of 2001 amended the Bank Secrecy Act of 1970 and the Money Laundering Control Act of 1986 and adopted additional measures requiring insured depository institutions, broker-dealers and certain other

financial institutions to have policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The 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.

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.

Incentive Compensation

In May 2016, the Federal Reserve Board, other federal banking agencies and the SEC jointly published re-proposed rule-making designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at a covered institution, which includes a bank or bank holding company with $1 billion or more of assets, such as us. The proposed rule (i) prohibits incentive-based compensation arrangements that encourage executive officers, employees, directors or principal shareholders to expose the institution to inappropriate risks by providing excessive compensation (based on the standards for excessive compensation adopted pursuant to the FDIA) and (ii) prohibits incentive-based compensation arrangements for executive officers, employees, directors or principal shareholders that could lead to a material financial loss for the institution. The proposed rule requires covered institutions to establish policies and procedures for monitoring and evaluating their compensation practices. The comment period ended in July 2016. Although final rules had not been adopted as of February 2019, if these or other regulations are adopted in a form similar to the proposed rule-making, they will impose limitations on the manner in which we may structure compensation for our executives.

Cyber-security

In March 2015, federal regulators issued two related statements regarding cyber-security. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date we have not experienced a significant compromise, significant data loss or any material financial losses related to cyber-security attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cyber-security attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other

technology-based products and services by us and our customers. See Item 1A. Risk Factors for a further discussion of risks related to cyber-security.

Website Access to SEC Filings

The Company's electronic filings 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 made available at no cost through our website at www.FIBK.com as soon as reasonably practicable after the Company files such material with, or furnishes it to, the SEC. The Company's SEC filings are also available through the SEC's website at www.sec.gov. 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.

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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. You 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

A decline in economic conditions could reduce demand for our products and services, which could have an adverse effect on our results of operations.

Our customers are located predominantly in Idaho, Montana, Oregon, South Dakota, Washington, and Wyoming. Our profitability largely depends on the general economic conditions in these areas.
Deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations:

- demand for our products and services may decline;
- loan delinquencies, problem assets, and foreclosures may increase;
- collateral for loans, especially real estate, may decline in value;
- future borrowing power of our customers may be reduced;
- the value of our securities portfolio may decline; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Additionally, a significant decline in general economic conditions caused by inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment, or other economic and geopolitical factors beyond our control, could further impact these local economic conditions and negatively affect our business and results of operations.

Deflationary pressures, while possibly lowering our operating costs, could also have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our business, financial condition, and results of operations.

We are subject to lending risks.

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.

While our loan portfolio is diversified across business sectors, it is concentrated in commercial real estate and commercial business loans. As of December 31, 2018, we had $4.5 billion of commercial loans, including $3.2 billion of commercial real estate loans, representing approximately 52.9% of our total loan portfolio. These loans may 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. 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, as well as the collateral that is generally less readily-marketable, losses incurred on commercial loans could have a material adverse impact on our business, financial condition, and results of operations.

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In addition, at December 31, 2018, we had $2.5 billion of agricultural, construction, residential and other real estate loans, representing approximately 29.4% 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 also 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.

Changes in interest rates may have an adverse effect on demand for our products and services and on our profitability.

Our earnings and financial condition are largely dependent on 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. The narrowing of interest rate spreads could adversely affect our earnings and financial condition. We cannot control or predict with certainty changes in interest rates. Regional and local economic conditions, competitive pressures and the policies of regulatory authorities, including monetary policies of the Federal Open Market Committee, affect interest income and interest expense. 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. For example, rising interest rates could adversely affect our mortgage banking business because higher interest rates could cause customers to apply for fewer mortgages. Similarly, rising interest rates would increase the required periodic payment for variable rate loans and may result in an increase in non-performing loans. Additionally, rising interest rates may increase the cost of our deposits, which are a primary source of funding. 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.

Changes in U.S. trade policies and other factors beyond the Company’s control, including the imposition of tariffs and retaliatory tariffs, may adversely impact our business, financial condition and results of operations.

Following the U.S. presidential election in 2016, there has been discussion and dialogue regarding potential changes to U.S. trade policies, legislation, treaties and tariffs, including trade policies and tariffs affecting other countries, including China, the European Union, Canada and Mexico and retaliatory tariffs by such countries. Tariffs and retaliatory tariffs have been imposed, and additional tariffs and retaliation tariffs have been proposed. Such tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export, including among others, agricultural products, could cause the prices of our customers’ products to increase which could reduce demand for such products, or reduce our customer margins, and adversely impact their revenues, financial results and ability to service debt; which, in turn, could adversely affect our financial condition and results of operations. In addition, to the extent changes in the political environment have a negative impact on us or on the markets in which we operate our business, results of operations and financial condition could be materially and adversely impacted in the future. It remains unclear what the U.S. administration or foreign governments will or will not do with respect to tariffs already imposed, additional tariffs that may be imposed, or international trade agreements and policies.

On October 1, 2018, the United States, Canada, and Mexico agreed to a new trade deal to replace the North American Free Trade Agreement ("NAFTA"), which is subject to congressional approval, expected sometime in 2019, and various components of the agreement are not effective until 2020. The full impact of this agreement on us, our

customers and on the economic conditions in our region is currently unknown. A trade war or other governmental action related to tariffs or international trade agreements or policies has the potential to negatively impact ours and/or our customers' costs, demand for our customers' products, and/or the U.S. economy or certain sectors thereof and, thus, adversely impact our business, financial condition and results of operations.

Our acquisitions, including our recent acquisition of Northwest and pending acquisitions, and the integration of acquired businesses subject us to various risks and may not result in all of the cost savings and benefits anticipated, which could adversely affect our financial condition or results of operations.

We have in the past, and may in the future, seek to grow our business by acquiring other businesses. In August 2018, we completed our acquisition of Northwest. In November 2018, we performed the system conversion and the integration of Northwest's bank subsidiary, INB, into FIB. In October 2018, we entered into definitive agreements to acquire IIBK and CMYF. There is risk that our acquisitions may not have the anticipated positive impact on the Company because, for example, we failed to correctly assess the asset quality of the assets being acquired; the total cost and time required to complete the integration successfully was greater than estimated; being unable to profitably deploy funds acquired in an acquisition; or poor overall performance of the combined entity.

Acquisitions may also result in business disruptions that could cause customers to remove their accounts from us and move their business to competing financial institutions. It is possible that the integration process related to acquisitions could result in the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with clients, customers, and employees. The loss of key employees in connection with an acquisition could adversely affect our ability to successfully conduct our business. Acquisition and integration efforts could divert management attention and resources, which could have an adverse effect on our financial condition and results of operations. Additionally, the operation of the acquired branches may adversely affect our existing profitability, and we may not be able to achieve results in the future similar to those achieved by the existing banking business or manage growth resulting from the acquisition effectively.

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

The risk of credit losses on loans varies with, among other things, general economic conditions, the composition of our loan portfolio, 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, delinquency trends, economic conditions, and regular reviews of loan portfolio quality. Based upon such factors, 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 banking authorities or regulations require us to increase the allowance for loan losses, our net income may be adversely affected. As a result, an increase in loan losses could have a material adverse effect on our earnings, financial condition, results of operations and prospects.

Loss of deposits or a change in mix could increase the Company's funding costs.

Deposits are a low cost and stable source of funding. We depend on checking and savings, negotiable order of withdrawal, and money market deposit account balances and other forms of customer deposits as our primary source of funding. The availability of internet banking products has increased the mobility of customer deposits. We compete with banks and other financial institutions for deposits. Funding costs may increase because the Company may lose deposits and replace them with more expensive sources of funding. Customers may shift their deposits into higher-cost products or the Company may need to raise its interest rates to remain competitive in the marketplace. Higher funding costs reduce the Company's net interest income and net income.

Many of our loans and our obligations for borrowed money are priced based on variable interest rates tied to the London Interbank Offered Rate ("LIBOR"). We are subject to risks that LIBOR may no longer be available, or may

become unreliable, as a result of the United Kingdom's Financial Conduct Authority ceasing to require the submission of LIBOR quotes as of December 31, 2021.

The potential cessation of LIBOR quotes or the future unavailability or unreliability of LIBOR creates substantial risks to the banking industry, including us. Unless alternative rates can be negotiated, our variable-rate loans, funding and derivative obligations that specify the use of a LIBOR index, would no longer be able to adjust as anticipated. This would adversely affect our asset/liability management and could lead to more asset and liability mismatches and interest rate risk unless appropriate LIBOR alternatives are developed. It could also disrupt the capital and credit markets as a result of confusion or uncertainty.

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The Federal Reserve has sponsored the Alternative Reference Rates Committee, ("ARRC"), which serves as a forum to coordinate and track planning as market participants currently using LIBOR consider (a) transitioning to alternative reference rates where it is deemed appropriate and (b) addressing risks in legacy contracts language given the possibility that LIBOR might cease publication. On April 3, 2018 the Federal Reserve began publishing three new reference rates, including the Secured Overnight Financing Rate ("SOFR"). ARRC has recommended SOFR as the alternative to LIBOR, and published fallback interest rate consultations for public comment and a Paced Transition Plan to SOFR use. The Financial Stability Board has taken an interest in LIBOR and possible replacement indices as a matter of risk management. The International Organisation of Securities Commissions, or IOSCO, has been active in this area and is expected to call on market participants to have backup options if a reference rate, such as LIBOR, ceases publication. The International Swap Dealers Association has published guidance on interest rate benchmarks and alternatives in July and August 2018. It cannot be predicted whether SOFR or another index or indices will become a market standard that replaces LIBOR, and if so, the effects on our customers, or our future results of operations or financial condition.

We may be adversely affected by declining oil and gas prices, and declining demand for coal.

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. As of December 31, 2018, our direct exposure to the oil and gas industry was approximately $78.2 million in loan commitments, including approximately $61.8 million advanced to oil and gas service companies. As of December 31, 2018, we also had commitments to lend an additional $16.4 million to oil and gas borrowers. These borrowers may be significantly affected by volatility in oil and gas prices and 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. We carefully monitor the impact of volatility in oil and gas prices on our loan portfolio. As of December 31, 2018, 52.1% of our outstanding oil and gas loans were criticized.

Additionally, adverse developments in the demand for coal due to tightening environmental regulations, the suspension of new coal leasing on federal lands, slower growth in electricity demand, and fuel competition from low natural gas prices, may impact the economies of the Powder River Basin in Montana and Wyoming.

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, gas and coal related revenues may have additional negative economic implications for the State of Wyoming. 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.

Our goodwill may become impaired, which may adversely impact our results of operations and financial condition.

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 an 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 non-cash 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, 2018, we had goodwill of $546.7 million, or 32.3% of our total stockholders' equity.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board ("FASB"), and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can materially impact how we record and report our financial condition and results of operations. For example, the FASB issued amendments to its guidance on the credit impairment of financial instruments. The amendments, which will be effective for our first fiscal year after December 15, 2019, would introduce a new impairment model based on current expected credit losses ("CECL"), rather than incurred losses. The CECL model would apply to most debt instruments, including loan receivables and loan commitments. The amendment may require us to increase our allowance for loan losses, may cause volatility in our allowance for loan losses, may negatively impact our capital ratios, and the costs of collecting, reviewing, and analyzing the additional data required may have an adverse effect on our operational results.

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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 currently have employment agreements or non-competition agreements with five of our key executives: Kevin P. Riley, our president and chief executive officer, Marcy D. Mutch, our chief financial officer, Renee L. Newman, our chief banking officer, Jodi Delahunt Hubbell, our chief operating officer, and Philip G. Gaglia, our chief risk officer. We do not have employment agreements with the other executives. 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 key employees or finding and integrating suitable successors in the event of key employee loss or unavailability.

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

As a result of low unemployment rates in our historical geographical footprint and the Northwest region of the U.S., 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 may lead to significant increases in salaries, wages and employee benefits expenses as we compete for qualified and skilled employees, which could negatively impact our results of operations and prospects.

Changes in new governmental regulation and new or changes in existing regulation could have a material adverse effect on the Company.

The Company is extensively regulated under federal and state banking laws and regulations that are intended primarily for the protection of depositors, the DIF and the banking system as a whole. Both the scope of the laws and regulations and the intensity of the supervision to which our business is subject have increased in recent years, in response, we believe, to the financial crisis as well as other factors such as technological and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Act and its implementing regulations, most of which are now in place. The Company expects its business will remain subject to extensive regulation and supervision.

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. In addition, the Company is subject to changes in federal and state laws as well as changes in banking and credit regulations and governmental economic and monetary policies. Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The regulatory environment for financial institutions entails significant potential increases in compliance requirements and associated costs, including those related to consumer credit, such as mortgage lending. Any regulatory changes could adversely and materially affect the Company.

We may be subject to more stringent capital requirements in the future.

Federal and state banking regulators also possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher deposit insurance premiums and limitations on the Company's activities that could have a material adverse effect on its business and profitability. For example, in July 2013, the FDIC and the federal banking agencies approved a new rule that substantially amended the regulatory risk-based capital rules applicable to us by adopting "Basel III" regulatory capital reforms and, other change required by the Dodd-Frank Act.

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That rule included minimum risk-based capital and leverage ratios, which became effective for us on January 1, 2015, and refined the definition of what constitutes “capital” for calculating these ratios. The rule required unrealized gains and losses on certain “available-for-sale” securities holdings to be included for calculating regulatory capital requirements unless a one-time opt-out is exercised. In addition, the final rule established a “capital conservation buffer” that, once fully phased in and combined with established minimum common equity, risk based assets capital, and total capital ratios, will exceed the prompt corrective action “well-capitalized” thresholds. (According to the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution is “well-capitalized” if it has a total risk-based capital ratio of 10% or greater; a Tier 1 risk-based capital ratio of 8.0% or greater; a Tier 1 leverage ratio of 5.0% or greater; a common equity Tier 1 capital ratio of 6.5% or greater; and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure.)

In January 2019, the phase-in of the new capital conservation buffer requirement was completed. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

The table below compares minimum required capital ratios and the well-capitalized minimums to current actual ratios for the Company and the Bank on a transitional phase-in basis as of December 31, 2018. The well-capitalized standard for the Company is from Regulation Y and the well-capitalized standard for the Bank is from Prompt Corrective Action, or PCA, regulations.

		Phase-In	Fully Phased-In	Well-Capitalized Minimums			
	Minimum Regulatory Capital Ratio	Minimum Ratio + Capital Conservation Buffer	Minimum Ratio + Capital Conservation Buffer	For the Company	For the Bank	The Company	The Bank
Common Equity Tier 1 Capital Ratio	4.50%	6.375%	7.00%	N/A	6.50%	11.40%	11.27%
Tier 1 Capital Ratio	6.00%	7.875%	8.50%	6.00%	8.00%	12.26%	11.27%
Total Capital Ratio	8.00%	9.875%	10.50%	8.00%	10.00%	12.99%	12.01%
Tier 1 Leverage Ratio	4.00%	N/A	N/A	N/A	5.00%	9.47%	8.97%

Our Company faces cybersecurity risks, including “denial-of-service attacks,” “hacking” and “identity theft” that could result in the disclosure of confidential information, adversely affect our business or reputation and create significant legal and financial exposure.

Our computer systems and network infrastructure are subject to security risks and 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. Denial-of-service attacks have been launched against a number of large financial services institutions, primarily resulting in inconvenience. Future cyber-attacks could be more disruptive and damaging. Hacking and identity theft risks, in particular, could cause serious reputational harm to the Company and the Bank.

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

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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 to 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 our business, financial condition, results of operations, and 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 and hold overnight funds 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 brokered deposits, the issuance of additional collateralized borrowings such as Federal Home Loan Bank advances, the issuance of debt or 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 regulatory standing, business, financial condition, and results of operations.

The Company may not be able to complete future acquisitions, or grow organically or through acquisitions.

Historically, the Company has expanded through a combination of organic growth and acquisitions. If market and regulatory conditions were to become challenging, the Company may be unable to grow organically or successfully complete potential future acquisitions. The Company has historically used its strong stock currency to complete acquisitions. Downturns in the stock market and the Company’s stock could have an impact on future acquisitions. Furthermore, there can be no assurance that the Company can successfully complete such transactions, since they are subject to regulatory review and approval.

Costs associated with repossessed properties, including environmental remediation, may 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 serving as collateral for certain loans. There are significant costs associated with our ownership of these properties including, but not limited to, personnel costs, taxes and insurance, completion and repair costs, and valuation adjustments. Additionally, we may experience unfavorable pricing in connection with our disposition of foreclosed properties. These costs, along with unfavorable pricing upon disposition, may adversely affect our cash flows, financial condition and results of operations.

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 or processes 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, financial condition, results of operations, and prospects.

The Company may experience significant competition from new or existing competitors, which may reduce its customer base or cause it to lower prices for its products and services in order to maintain market share.

There is intense competition among banks in the Company's market area. In addition, the Company competes with other providers of financial services, such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, commercial finance and leasing companies, factoring companies, the mutual funds industry, fin-tech companies, full-service brokerage firms, and discount brokerage firms, some of which are subject to less extensive regulations than us with respect to the products and services they provide. Our success depends, in part, on our ability to adapt our products and services to evolving industry standards and customer expectations. There is increasing pressure to provide products and services at lower prices. Lower prices can reduce our net interest margin and revenues from our fee-based products and services.

In addition, the adoption of new technologies by competitors, including internet banking services, mobile applications and advanced ATM functionality could require us to make substantial expenditures to modify or adapt our existing products and services. Also, these and other capital investments in our business may not produce expected growth in earnings anticipated at the time of the expenditure. The Company may not be successful in introducing new products and services, achieving market acceptance of its products and services, anticipating or reacting to consumers' changing technological preferences or developing and maintaining loyal customers. In addition, we could lose market share to the shadow banking system or other non-traditional banking organizations.

Some of our larger competitors may have greater capital and resources than the Company, may have higher lending limits and may offer products and services not offered by us. Any potential adverse reactions to our financial condition or status in the marketplace, as compared to its competitors, could limit our ability to attract and retain customers and to compete for new business opportunities. The inability to attract and retain customers or to effectively compete for new business may have a material and adverse effect on our financial condition and results of operations.

The Company also experiences competition from nonbank companies inside and outside of its market area and, in some cases, from companies other than those traditionally considered financial sector participants. In particular, technology companies have begun to focus on the financial sector and offer software and products primarily over the Internet, with an increasing focus on mobile device delivery. These companies generally are not subject to regulatory requirements comparable to those to which financial institutions are subject, and may accordingly realize certain cost savings and offer products and services at more favorable rates and with greater convenience to the customer. For example, a number of companies offer bill pay and funds transfer services that allow customers to avoid using a bank. Technology companies are generally positioned and structured to quickly adapt to technological advances and directly focus resources on implementing those advances. This competition could result in the loss of fee income and customer deposits and related income. In addition, changes in consumer spending and saving habits could adversely affect our operations, and the Company may be unable to develop competitive and timely new products and services in response. As the pace of technology and change advance, continuous innovation is expected to exert long-term pressure on the financial services industry.

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The Company relies on other companies to provide certain key components of its business infrastructure.

We are reliant upon certain external vendors to provide products and services necessary to maintain our day-to-day operations and we outsource many of our major systems, such as certain data processing, loan servicing and deposit processing systems. While the Company has selected these external vendors and systems carefully, and continues to manage and oversee these vendors, it does not control their operations. Failure of certain external vendors or systems to perform or provide services 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. 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 the failures or disruptions mentioned above, could negatively impact our financial condition, results of operations, cash flows, and prospects. Replacing these third party vendors could also entail significant delay and expense.

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.

Additionally, 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 may 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, financial condition, and results of operations.

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 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 customers’ demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, on our financial condition, results of operations and prospects.

The soundness of other financial institutions could adversely affect the Company.

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.

Our business is subject to the risks of earthquakes, tsunamis, floods, fires, and other natural catastrophic events.

A major catastrophe, such as an earthquake, tsunami, flood, fire, winter storms, or other natural disaster could adversely affect our financial condition or result in a prolonged interruption of our business. We have operations and customers in the Northwest, a geographical region that has been or may be affected by earthquake, volcano, tsunami, and flooding activity, which could be adversely impacted by these natural disasters or other severe weather in the region. Unpredictable natural and other disasters could have an adverse effect on the Company in that such events could materially disrupt our operations or the ability or willingness of our customers to access the financial services offered by the Company. These events could reduce our earnings and cause volatility in its financial results for any fiscal quarter or year and have a material adverse effect on our financial condition and/or results of operations and prospects.

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Risks Relating to Our Common Stock

Volatility in the price and volume of our stock may be unfavorable.

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;
- conversion by our Class B shareholders of their shares into Class A common stock to liquidate their holdings;
- our performance relative to our peers;
- market demand for our shares;
- perceptions of the banking industry in general;
- political influences on investor sentiment; and
- consumer confidence.

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. Further, because our Class B common stock is convertible on a share-for-share basis into Class A common stock and the share price of our Class B common stock is based upon the share price of our Class A common stock, our Class B common stock price is similarly impacted by the factors affecting our Class A common stock.

In addition, 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 companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management’s attention and resources.

Our dividend policy, or our ability to pay dividends, may change.

We are a legal entity separate and distinct from our subsidiary Bank. Since we are a holding company with no significant assets other than the capital stock of our subsidiaries, we depend upon dividends from our Bank for a substantial part of our revenue. Accordingly, our ability to pay dividends, cover operating expenses, and acquire other institutions depends primarily upon the receipt of dividends or other capital distributions from the Bank. The ability of our Bank 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.

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 may declare out of funds legally available for such payments. The amount of any dividend declaration is subject to our evaluation of our strategic plans, growth initiatives, capital availability, projected liquidity needs and other factors.

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

Our Class A and Class B 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.

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

Members of the Scott family control a majority 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 or pursuant to our articles of incorporation), any merger or consolidation requiring common stockholder approval and the sale of all or substantially all of our assets. Accordingly, such holders have the ability to prevent change in control transactions as long as they maintain voting control of the company.

In addition, because these holders have the ability to elect all of our directors they are able to control our policies and operations, including the appointment of management, 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 may also 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 Class A and Class B 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 and Class B 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 the Company. This and the other factors described above may hinder or even prevent a change in control of us, even if a change in control would be beneficial to our stockholders.

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

Due to the combined voting power of the members of the Scott family, we qualify as a "controlled company" under the NASDAQ Marketplace Rules. As a "controlled company" we are exempt from certain NASDAQ corporate governance requirements, 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, our future compensation and governance and nominating committees may not consist entirely of independent directors. As long as we choose to rely on these exemptions from NASDAQ Marketplace Rules, stockholders will not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements.

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

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 and Class B common stock and could have a material negative effect on the market price of our Class A common stock. In addition, our Class B common stock is convertible into Class A common stock at any time at the sole discretion of the holders of Class B shares or automatically if, on the record date for any meeting of stockholders, the number of outstanding Class B shares constitutes less than twenty percent of the aggregate number of common stock then outstanding.

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

Shares of our Class A and Class B common stock are equity interests and do not constitute indebtedness. As such, shares of our Class A and Class B common stock rank junior to all our indebtedness, including any subordinated term loans, subordinated debentures held by trusts that have issued trust preferred securities other non-equity claims on us with respect to assets available to satisfy claims on us. In the future, we may make additional offerings of debt or equity securities or, we may issue additional debt or equity securities as consideration for future mergers and acquisitions.

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 FIB owns a 50.0% interest. We lease approximately 105,616 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 147 locations in Idaho, Montana, Oregon, South Dakota, Washington, and Wyoming, of which 39 properties are leased from independent third parties and 108 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.

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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 Class A and Class B common stock. Class B common stock is convertible into Class A common stock as described below. Our common stock is uncertificated.

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

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

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

- 100,000 shares are designated as preferred stock.

At December 31, 2018, we had issued and outstanding 38,169,575 shares of Class A common stock and 22,453,672 shares of Class B common stock. At December 31, 2018, we also had outstanding stock options to purchase an aggregate of 338,329 shares of our Class A common stock and 89,847 shares of our Class B common stock.

Members of the Scott family control 71.0% 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, if Class A common stock and Class B

common stockholders would receive different economic benefits, or if certain changes to our articles of incorporation are proposed.

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 plurality of shares present in person or represented by proxy at a shareholder meeting.

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.

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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 number of shares of Class B Common Stock constitutes less than 20% of the aggregate number of shares of Common Stock then outstanding as of the record date for a shareholder meeting, as determined by the Board of Directors of the Corporation, each share of Class B Common Stock then issued and outstanding is automatically converted into one fully paid and non-assessable share of Class A Common Stock and will have one vote per share; or

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

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

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 sales prices per share of the Class A common stock, as reported by the NASDAQ Stock Market, and dividends paid per share on our common stock.

Quarter Ended	High	Low	Common Dividends Paid
March 31, 2017	$45.35	$37.15	$0.24
June 30, 2017	41.05	33.70	0.24
September 30, 2017	38.40	33.33	0.24
December 31, 2017	41.25	36.00	0.24
March 31, 2018	42.90	38.10	0.28
June 30, 2018	44.95	38.70	0.28
September 30, 2018	47.05	41.95	0.28
December 31, 2018	46.51	34.61	0.28

As of December 31, 2018, we had 1,267 record shareholders, including the Wealth Management division of FIB as trustee for 698,484 shares of Class A common stock held on behalf of 745 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.

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Dividends

It is our policy to pay a quarterly dividend to all common shareholders. The Board recently announced an increase in its quarterly cash dividends amount to $0.31 per share of common stock. We currently intend to continue paying quarterly dividends; however, the Board may change or eliminate the payment of future dividends.

Dividend Restrictions

For a description of restrictions on the payment of dividends, see Part I, Item 1, “Business — Regulation and Supervision — Dividends and Restrictions on Transfers of Funds,” and Part II, Item7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources and Liquidity Management” included herein.

Sales of Unregistered Securities

There were no sales of unregistered equity securities by us during the years ended December 31, 2018, 2017, or 2016 that were not registered under the Securities Act of 1933.

Equity Compensation Plan Information

Information regarding securities authorized for issuance under equity compensation plans is provided in Part III, “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of this Report.

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, 2018.

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 2018	—	$ —	—	24,123
November 2018	—	—	—	24,123
December 2018	581	44.07	—	24,123
Total	581	$ 44.07	—	24,123

(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 2015 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 with the cumulative total return on equity securities of companies included in the NASDAQ Composite Index and the SNL U.S. Bank NASDAQ index, measured on the last trading day of each year shown. The SNL U.S. Bank NASDAQ 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 Class A common stock on December 31, 2013, 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 Class A common stock.

Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
First Interstate BancSystem, Inc.	$100.00	$100.49	$108.15	$163.23	$157.53	$147.67
NASDAQ Composite	100.00	114.75	122.74	133.62	173.22	168.30
SNL U.S. Bank NASDAQ	100.00	103.57	111.80	155.02	163.20	137.56

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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, 2018 and 2017, and the results of our operations for the fiscal years ended December 31, 2018, 2017 and 2016, 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, 2016, 2015 and 2014, and the results of our operations for the fiscal years ended December 31, 2015 and 2014, has been derived from our audited consolidated financial statements not included herein.

Five Year Summary
(Dollars in millions except share and per share data)

As of or for the year ended December 31,	2018	2017	2016	2015	2014
Selected Balance Sheet Data:					
Net loans	$ 8,430.7	$ 7,542.2	$ 5,402.3	$ 5,169.4	$ 4,823.2
Investment securities	2,677.5	2,693.2	2,124.5	2,057.5	2,287.1
Total assets	13,300.2	12,213.3	9,063.9	8,728.2	8,609.9
Deposits	10,680.7	9,934.9	7,376.1	7,088.9	7,006.2
Securities sold under repurchase agreements	712.4	643.0	537.6	510.6	502.3
Long-term debt	15.8	13.1	28.0	27.9	38.1
Subordinated debentures held by subsidiary trusts	86.9	82.5	82.5	82.5	82.5
Common stockholders' equity	$ 1,693.9	$ 1,427.6	$ 982.6	$ 950.5	$ 908.9
Selected Income Statement Data:					
Interest income	$ 473.4	$ 377.8	$ 297.4	$ 282.4	$ 267.1
Interest expense	40.9	28.0	17.6	18.1	18.6
Net interest income	432.5	349.8	279.8	264.3	248.5
Provision for loan losses	8.6	11.0	10.0	6.8	(6.6)
Net interest income after provision for loan losses	423.9	338.8	269.8	257.5	255.1
Non-interest income	143.3	141.8	136.5	121.5	111.8
Non-interest expense	360.9	323.9	261.0	248.6	237.3
Income before income taxes	206.3	156.7	145.3	130.4	129.6
Income tax expense	46.1	50.2	49.6	43.7	45.2
Net income available to common shareholders	$ 160.2	$ 106.5	$ 95.7	$ 86.7	$ 84.4
Common Share Data:					
Earnings per share:					
Basic	$ 2.77	$ 2.07	$ 2.15	$ 1.92	$ 1.89
Diluted	2.75	2.05	2.13	1.90	1.87
Dividends per share	1.12	0.96	0.88	0.80	0.64
Book value per share (1)	27.94	25.28	21.87	20.92	19.85
Tangible book value per share (2)	$ 17.52	$ 16.04	$ 16.92	$ 16.19	$ 15.07
Weighted average shares outstanding:					
Basic	57,778,857	51,429,366	44,511,774	45,184,091	44,615,060
Diluted	58,217,123	51,903,209	44,910,396	45,646,418	45,210,561

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Five Year Summary (continued)
(Dollars in millions except share and per share data)

As of or for the year ended December 31,	2018	2017	2016	2015	2014
Financial Ratios:					
Return on average assets	1.27 %	0.98 %	1.10 %	1.02 %	1.06 %
Return on average common stockholders' equity	10.50	8.57	9.93	9.37	9.86
Return on average tangible common equity (3)	16.70	12.76	12.81	12.23	12.88
Average stockholders' equity to average assets	12.10	11.45	11.04	10.87	10.77
Yield on average earning assets	4.24	3.93	3.80	3.70	3.75
Cost of average interest bearing liabilities	0.51	0.39	0.30	0.31	0.34
Interest rate spread	3.73	3.54	3.50	3.39	3.41
Net interest margin (4)	3.88	3.64	3.57	3.46	3.49
Efficiency ratio (5)	61.31	64.77	61.88	63.55	65.24
Common stock dividend payout ratio (6)	40.43	46.38	40.93	41.65	33.83
Loan to deposit ratio	79.62	76.64	74.27	74.01	69.90
Asset Quality Ratios:					
Non-performing loans to total loans (7)	0.68 %	0.95 %	1.40 %	1.37 %	1.32 %
Non-performing assets to total loans and other real estate owned (OREO) (8)	0.85	1.08	1.58	1.49	1.59
Non-performing assets to total assets	0.55	0.68	0.96	0.90	0.91
Allowance for loan losses to total loans	0.86	0.95	1.39	1.46	1.52
Allowance for loan losses to non-performing loans	125.65	99.40	99.52	106.71	114.58
Net charge-offs to average loans	0.10	0.23	0.20	0.08	0.10
Capital Ratios:					
Tangible common equity to tangible assets (9)	8.39 %	7.75 %	8.60 %	8.64 %	8.22 %
Common equity tier 1 capital ratio (10)	11.40	11.04	12.65	12.69	13.08
Tier 1 capital ratio	12.26	11.93	13.89	13.99	14.52
Total capital ratio	12.99	12.76	15.13	15.36	16.15
Tier 1 leverage ratio	9.47	8.86	10.11	10.12	9.61

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

(2) 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 total common stockholders' equity less goodwill, and other intangible assets (excluding 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.

(3) Return on average tangible common equity is a non-GAAP financial measure. For purposes of computing return on average tangible common equity, average tangible common stockholders' equity equals average total stockholders' equity less average goodwill and average other intangible assets (excluding mortgage servicing rights). Return on average tangible common equity is calculated as net income available to common shareholders divided by average tangible common stockholders' equity, and its most directly 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.

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

(5) In 2017, the Company conformed our efficiency ratio definition to the FDIC definition for all periods presented as non-interest expense less amortization of intangible assets divided by net interest income plus non-interest income.

(6)

Common stock dividend payout ratio represents dividends per common share divided by basic earnings per common share.

(7) Non-performing loans include non-accrual loans and loans past due 90 days or more and still accruing interest.

(8) Non-performing assets include non-accrual loans, loans past due 90 days or more and still accruing interest and OREO.

(9) 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 total common stockholders' equity less goodwill and other intangible assets (excluding mortgage servicing assets), and tangible assets is calculated as total assets less goodwill and other intangible assets (excluding mortgage servicing rights). The most directly comparable GAAP financial measure to tangible common equity to tangible assets is common equity to assets. 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) For purposes of computing tier 1 common capital to total risk-weighted assets, tier 1 common capital excludes preferred stock and trust preferred securities.

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Non-GAAP Financial Measures

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

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

Non-GAAP Financial Measures - Five Year Summary
(Dollars in millions except share and per share data)

As of December 31,	2018	2017	2016	2015	2014
Total common stockholders' equity (GAAP)	$1,693.9	$1,427.6	$982.6	$950.5	$908.9
Less goodwill and other intangible assets (excluding mortgage servicing rights)	631.6	521.8	222.5	215.1	218.9
Tangible common stockholders' equity (Non-GAAP)	1,062.3	905.8	760.1	735.4	690.0
Total Assets (GAAP)	$13,300.2	$12,213.3	$9,063.9	$8,728.2	$8,609.9
Less goodwill and other intangible assets (excluding mortgage servicing rights)	631.6	521.8	222.5	215.1	218.9
Tangible assets (Non-GAAP)	$12,668.6	$11,691.5	$8,841.4	$8,513.1	$8,391.0
Average Balances:					
Total common stockholders' equity (GAAP)	$1,525.8	$1,243.7	$963.5	$926.1	$855.9
Less goodwill and other intangible assets (excluding mortgage servicing rights)	566.6	408.9	216.7	216.5	200.7
Average tangible common stockholders' equity (Non-GAAP)	$959.2	$834.8	$746.8	$709.6	$655.2
Common shares outstanding	60,623,247	56,465,559	44,926,176	45,458,255	45,788,415
Net income available to common shareholders	$160.2	$106.5	$95.7	$86.8	$84.4
Book value per common share (GAAP)	$27.94	$25.28	$21.87	$20.91	$19.85
Tangible book value per common share (Non-GAAP)	17.52	16.04	16.92	16.18	15.07
Tangible common equity to tangible assets (Non-GAAP)	8.39 %	7.75 %	8.60 %	8.64 %	8.22 %
Return on average common tangible equity (Non-GAAP)	16.70	12.76	12.81	12.23	12.88

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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 by words or phrases such as "believes," "expects," "anticipates," "plans," "trends," "objectives," "continues" or similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "mi "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:

- political, legal, regulatory, and general economic or business conditions, either nationally or regionally;
- geopolitical uncertainties throughout the world that may impact our business and our customers' businesses;
- weather-related, disease, and other adverse climate or other conditions that may impact our business and our customers' business;
- changes in the interest rate environment or interest rate changes made by the Federal Reserve;
- credit performance of our loan portfolio;
- adequacy of the allowance for loan losses and access to low-cost funding sources;
- the unavailability of LIBOR:
- impairment of goodwill;
- dependence on the Company's management team and ability to attract and retain qualified employees;
- governmental regulation and changes in regulatory, tax and accounting rules and interpretations;
- stringent capital requirements;
- future FDIC insurance premium increases;
- CFPB restrictions on our ability to originate and sell mortgage loans;
- cyber-security risks, including items such as "denial of service," "hacking" and "identity theft";
- significant litigation and regulatory proceedings;
- inability to meet liquidity requirements;
- environmental remediation and other costs;
- ineffective internal operational controls;
- competitive pressures among depository and other financial institutions may increase significantly;
- competitors may have greater financial resources or develop products that enable them to compete more successfully and may be subject to different regulatory standards than us;
- reliance on external vendors;
- soundness of other financial institutions;
- failure of technology and failure to effectively implement technology-driven products and services;
- risks associated with introducing and implementing new lines of business, products or services;
- failure to execute on strategic or operational plans, including the ability to complete mergers and acquisitions or fully achieve expected cost savings or revenue growth associated with mergers and acquisitions;
- deposit attrition, customer loss and/or revenue loss following completed mergers/acquisitions;
- anti-takeover provisions;
- change in dividend policy and the inability of our bank subsidiary to pay dividends;
- uninsured nature of any investment in Class A and Class B common stock;
- decline in market price and volatility of Class A and Class B common stock;
- voting control of Class B stockholders;

- dilution as a result of future equity issuances;
- controlled company status; and,
- subordination of Class A and Class B 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 herein. 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, 2018, we had consolidated assets of $13.3 billion, deposits of $10.7 billion, total loans of $8.5 billion and total stockholders' equity of $1.7 billion.

We currently operate 147 banking offices, including detached drive-up facilities, in communities across Idaho, Montana, Oregon, South Dakota, Washington, and Wyoming in addition to Internet and mobile banking services. Through our bank 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 agriculture, construction, education, energy, governmental services, healthcare, mining, professional services, retail, tourism, and wholesale trade.

Our Business

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

Acquisitions

On August 16, 2018, we acquired all of the outstanding stock of Northwest, the parent company of INB, a Spokane, Washington based community bank with 20 banking offices across Idaho, Oregon and Washington. The Company

merged INB with its existing bank subsidiary, FIB, on November 9, 2018. Consideration for the acquisition included $176.3 million, consisting of the issuance of 3.84 million shares of the Company's Class A common stock valued at $45.15 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock exchange on the acquisition date. The Company paid approximately $3.0 million in cash related to Northwest warrants, which was included in the consideration paid. Holders of each share of Northwest common stock received 0.516 shares of First Interstate Class A common stock for each share of Northwest common stock.

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On October 11, 2018, the Company entered into a definitive agreement to acquire all of the outstanding stock of IIBK, a community bank headquartered in Coeur d' Alene, Idaho with 11 banking offices across Idaho, in an all-stock transaction valued at approximately $181.3 million in aggregate, or $22.73 per share of IIBK stock, based on a per share price of First Interstate Class A common stock of $45.45 per share as of October 5, 2018. IIBK shareholders will be entitled to receive 0.50 shares of First Interstate Class A common stock for each share of IIBK common stock they own. The transaction has been approved by the boards of directors of both companies and is expected to close and convert data processing systems in the second quarter of 2019, subject to customary conditions, including regulatory and shareholder approvals.

Also on October 11, 2018, the Company entered into a definitive agreement to acquire all of the outstanding stock of CMYF, a community bank headquartered in Post Falls, Idaho with three banking offices in North Idaho, in an all-stock transaction valued at approximately $21.5 million in aggregate, or $17.20 per share of CMYF stock, based on a per share price of First Interstate Class A common stock of $45.45 per share as of October 5, 2018. CMYF stockholders will be entitled to receive 0.3784 shares of First Interstate Class A common stock for each share of CMYF common stock they own. The transaction has been approved by the boards of directors of both companies and is expected to close and convert data processing systems in the second quarter of 2019, subject to customary conditions, including regulatory and shareholder approvals.

For additional information regarding these acquisitions, see “Risk Factors” included in Part I, Item 1A and “Notes to Consolidated Financial Statements — Acquisitions” included in Part IV, Item 15 of this report.

Regulation

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 the Company 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 phased in starting January 1, 2015 and were fully implemented by January 1, 2018. The capital conservation buffer phased in beginning January 1, 2016 and was fully implemented by January 1, 2019. As of December 31, 2018, 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 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 tools we use in managing and evaluating our results of operations include tracking performance as measured by certain metrics including return on average equity, net interest income, non-interest income, non-interest expense and net income. Net interest income is affected by a number of factors such as the level of interest rates, changes in

interest rates and changes in the volume and composition of interest earning assets and interest bearing liabilities. Changes in interest rate spread, which is the difference between interest earned on assets and interest paid on liabilities, has the most significant impact on net interest income. Other factors like volume of loans, investment securities, and other interest earning assets, compared to the volume of interest bearing deposits and indebtedness also cause changes in our net interest income between periods. Non-interest bearing sources of funds, such as demand deposits and stockholders' equity, help to support earning assets.

The impact of funding, including non-interest bearing deposit 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 by assessing the yields on our loans and other earning assets, the costs of our deposits and other funding sources, and 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 similar bank holding companies on factors that include return on average assets, return on average equity, total shareholder return, and growth in earnings.

Financial Condition

Managing and evaluating our financial condition, we focus on 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.

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 GAAP and follow general practices within the banking industry. 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. The most

significant accounting policies we follow are summarized in "Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies" included in 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 we have assessed to have 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. Loans acquired in business combinations are recorded at their estimated fair values on the date of acquisition. Accordingly, no allowance for loan losses related to these loans is recorded at the date of transfer. An allowance for loan losses is recorded for credit deterioration occurring subsequent to the transfer date. 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 as a result, on 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. The loan loss rates for 2018 incorporate the available loss history data from BOTC prior to the merger date to represent a consolidated institutional loss rate for both originated and acquired portfolios. 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."

Goodwill

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

Our annual goodwill impairment test is performed each year as of July 1st. The Company performed its annual goodwill impairment qualitative assessment as of 2018 and determined the Company's goodwill was not considered impaired. 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. Credit risks are included in the determination of fair value. 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.

For loans with no significant evidence of credit deterioration since origination, the difference between the fair value and the unpaid principal balance of the loan at the acquisition date is amortized into interest income using the effective interest method over the remaining period to contractual maturity. Loans acquired with evidence of deterioration in credit quality since origination are accounted for in accordance with Accounting Standards Codification (“ASC”) Topic 310-30 “Loans and Debt Securities Acquired with Deteriorated Credit Quality.” 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 contractual lives of the underlying loans using the effective interest method. The Company continues to evaluate the reasonableness of expectations for the timing and amount of cash to be collected. Increases in expected cash flows subsequent to the initial measurement are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment.

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, 2018 to December 31, 2017 and the years ended December 31, 2017 to December 31, 2016.

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.

Changes in interest rate spread, which is the difference between interest earned on assets and interest paid on liabilities, has the most significant impact on net interest income. Other factors like volume of loans, investment securities, and other interest earning assets compared to the volume of interest bearing deposits and indebtedness also cause changes in our net interest income between periods. Non-interest bearing sources of funds, such as demand deposits and stockholders’ equity, help to support earning assets.

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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 millions)

	Year Ended December 31,								
	2018			2017			2016		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:									
Loans (1) (2)	$7,985.0	$405.9	5.08 %	$6,675.4	$327.4	4.90 %	$5,378.3	$261.7	4.87 %
Investment securities (2)	2,639.4	58.4	2.21	2,417.5	47.6	1.97	2,093.5	37.6	1.80
Interest bearing deposits in banks	573.6	11.3	1.97	634.2	7.1	1.13	478.9	2.6	0.54
Federal funds sold	11.1	—	—	0.7	—	—	1.6	—	—
Total interest earnings assets	11,209.1	475.6	4.24	9,727.8	382.1	3.93	7,952.3	301.9	3.80
Non-earning assets	1,405.6			1,133.7			772.1		
Total assets	$12,614.7			$10,861.5			$8,724.4		
Interest bearing liabilities:									
Demand deposits	$2,882.8	$8.1	0.28 %	$2,553.1	$5.5	0.21 %	$2,162.6	$2.2	0.10 %
Savings deposits	3,166.7	12.5	0.39	2,739.2	7.7	0.28	2,037.4	2.7	0.13
Time deposits	1,199.5	12.0	1.00	1,112.7	8.2	0.73	1,094.2	7.8	0.71
Repurchase agreements	642.8	2.7	0.42	587.1	1.3	0.21	481.0	0.4	0.09
Other borrowed funds	1.7	0.2	11.76	23.9	1.5	6.42	—	—	—
Long-term debt	17.6	1.3	7.39	8.0	0.6	7.48	28.2	1.8	6.43
Subordinated debentures held by subsidiary trusts	84.1	4.1	4.88	82.5	3.1	3.85	82.5	2.8	3.34
Total interest bearing liabilities	7,995.2	40.9	0.51	7,106.5	27.9	0.39	5,885.9	17.7	0.30
Non-interest bearing deposits	2,984.3			2,430.9			1,812.6		
Other non-interest bearing liabilities	109.4			80.4			62.4		
Stockholders’ equity	1,525.8			1,243.7			963.5		
Total liabilities and stockholders’ equity	$12,614.7			$10,861.5			$8,724.4		
Net FTE interest income		$434.7			$354.2			$284.2	
Less FTE adjustments (2)		(2.2)			(4.4)			(4.5)	
Net interest income from consolidated statements of income		$432.5			$349.8			$279.7	
Interest rate spread			3.73 %			3.54 %			3.50 %
Net FTE interest margin (3)			3.88 %			3.64 %			3.57 %
Cost of funds, including non-interest bearing demand deposits (4)			0.37 %			0.29 %			0.23 %

(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. The federal income tax rate of 21%, 35%, and 35% was utilized at December 31, 2018, 2017, and 2016, respectively.

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

(4) Cost of funds including non-interest bearing demand deposits is calculated by dividing total interest on interest bearing liabilities by the sum of total interest bearing liabilities plus non-interest bearing deposits.

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Net FTE interest income increased $80.5 million to $434.7 million during 2018, as compared to $354.2 million in 2017, primarily due to higher outstanding loan balances as a result of the full year impact of the BOTC acquisition, the INB acquisition, and organic loan growth, combined with increases in yields earned on interest earning assets, which were partially offset by a higher cost of funds, as a result of increasing our rates on client deposits in response to increases in the Federal Fund rate. Also contributing to the increase in net FTE interest income during 2018, as compared to 2017, was interest accretion related to the fair value of loans. Interest accretion related to the fair valuation of acquired loans was $13.7 million during 2018 as compared to $10.7 million in 2017, of which $5.9 million was the result of early loan payoffs during 2018 as compared to $5.1 million in 2017. Net FTE interest income was also positively impacted by recoveries of previously charged-off interest of $4.0 million in 2018, as compared to $5.6 million in 2017. The Company's net interest margin ratio increased 24 basis points to 3.88% during 2018, as compared to 3.64% in 2017. Exclusive of interest accretion related to acquired loans and the impact of recoveries of charged-off interest, our 2018 net interest margin ratio increased 25 basis points over our similarly calculated net interest margin ratio in 2017.

Net FTE interest income increased $70.0 million to $354.2 million during 2017, as compared to $284.2 million in 2016, primarily due to higher outstanding loan balances as a result of the BOTC acquisition and organic loan growth, combined with increases in yields earned on interest earning assets, which were partially offset by a higher cost of funds, as a result of increasing our rates on client deposits in response to increases in the Federal Fund rate. Also contributing to the increase in net FTE interest income during 2017, as compared to 2016, was interest accretion related to the fair value of loans. Interest accretion related to the fair valuation of acquired loans was $10.7 million during 2017 as compared to $6.3 million in 2016, of which $5.1 million was the result of early loan payoffs during 2017 as compared to $3.8 million in 2016. Net FTE interest income was also positively impacted by recoveries of previously charged-off interest of $5.6 million in 2017, as compared to $2.6 million in 2016. The Company's net interest margin ratio increased seven basis points to 3.64% during 2017, as compared to 3.57% in 2016. Exclusive of interest accretion related to acquired loans and the impact of recoveries of charged-off interest, our 2017 net interest margin ratio increased two basis points over our similarly calculated net interest margin ratio in 2016.

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 millions)

	Year Ended December 31, 2018 compared with December 31, 2017			Year Ended December 31, 2017 compared with December 31, 2016			Year Ended December 31, 2016 compared with December 31, 2015		
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
Interest earning assets:									
Loans (1)	$64.2	$14.3	$78.5	$63.1	$2.6	$65.7	$15.8	$(2.1)	$13.7
Investment Securities (1)	4.4	6.4	10.8	5.8	4.1	9.9	(1.7)	2.1	0.4
Interest bearing deposits in banks	(0.7)	4.9	4.2	0.8	3.7	4.5	(0.1)	1.1	1.0
Total change	67.9	25.6	93.5	69.7	10.4	80.1	14.0	1.1	15.1
Interest bearing liabilities:									
Demand deposits	0.7	1.9	2.6	0.4	2.9	3.3	0.1	—	0.1
Savings deposits	1.2	3.6	4.8	0.9	4.1	5.0	0.1	—	0.1

Time deposits	0.6	3.2	3.8	0.1	0.2	0.3	(0.6)	(0.1)	(0.7)
Repurchase agreements	0.1	1.3	1.4	0.1	0.7	0.8	—	0.2	0.2
Other borrowed funds	(1.4)	0.1	(1.3)	—	1.5	1.5	—	—	—
Long-term debt	0.7	—	0.7	(1.3)	0.1	(1.2)	(0.8)	0.4	(0.4)
Subordinated debentures held by subsidiary trusts	0.1	0.9	1.0	—	0.4	0.4	—	0.3	0.3
Total change	2.0	11.0	13.0	0.2	9.9	10.1	(1.2)	0.8	(0.4)
Increase (decrease) in FTE net interest income (1)	$65.9	$14.6	$80.5	$69.5	$0.5	$70.0	$15.2	$0.3	$15.5

(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

During 2018, we recorded a provision for loan losses of $8.6 million, as compared to $11.0 million in 2017. The decrease in provision for loan losses recorded in 2018 was primarily a result of improvement in credit quality and lower levels of net loan charge-offs. During 2017, we recorded a provision for loan losses of $11.0 million, as compared to $10.0 million in 2016. The increase in provision for loans losses recorded in 2017 was primarily a result of a higher level of net loan charge-offs. The provision for loans losses recorded in 2016 was primarily attributable to the application of historical loan loss rates to loan growth combined with increases in net loan charge-offs. For information regarding our non-performing loans, see "Non-Performing Assets" included herein. For information regarding our allowance for losses, see "Financial Condition—Allowance for Loan Losses" included herein.

Non-interest Income

Our principal sources of non-interest income primarily include fee-based revenues such as payment services, mortgage banking and wealth management revenues, service charges on deposit accounts and other service charges, commissions and fees. The following table presents the composition of our non-interest income as of the dates indicated:

Non-interest income
(Dollars in millions)

	Year Ended December 31,			% Change	
	2018	2017	2016	2018 vs 2017	2017 vs 2016
Payment services revenues	$43.3	$43.3	$34.4	— %	25.9 %
Mortgage banking revenues	24.9	28.9	37.2	(13.8)	(22.3)
Wealth management revenues	23.2	21.1	20.5	10.0	2.9
Service charges on deposit accounts	21.8	21.3	18.4	2.3	15.8
Other service charges, commissions and fees	15.1	13.3	11.5	13.5	15.7
Loss on termination of interest rate swap	—	(1.1)	—	NM	NM
Investment securities (losses) gains, net	(0.1)	0.7	0.3	NM	NM
Other income	15.1	14.3	10.0	5.6	43.0
Non-recurring litigation recovery	—	—	4.2	NM	NM
Total non-interest income	$143.3	$141.8	$136.5	1.1 %	3.9 %

Non-interest income increased $1.5 million, or 1.1%, to $143.3 million in 2018, as compared to $141.8 million in 2017, and $5.3 million, or 3.9%, to $141.8 million in 2017 as compared to $136.5 million in 2016. Significant components of these fluctuations are discussed below.

Payment services revenues consist of interchange fees that merchants pay for processing electronic payment transactions and ATM service fees. Payment services revenues was stable in 2018, as compared to $43.3 million for the same period in 2017, and increased $8.9 million, or 25.9%, to $43.3 million in 2017, as compared to $34.4 million in 2016. These changes were attributable to additional interchange income due to increased debit card and credit card transaction volumes. Additionally, 2018 reflects a decrease in payment services revenues of $6.5 million attributable to the Durbin Amendment rule (which limits the amount of interchange fees certain banks may charge), which impacted our Company beginning July 1, 2018.

Mortgage banking revenues include 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 mortgage banking revenues. 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. Mortgage banking revenues decreased $4.0 million, or 13.8%, to $24.9 million in 2018, as compared to $28.9 million in 2017. The decrease is primarily attributable to a lack of demand in the refinance market and reduced gain on sale margins. Loans originated for home purchases accounted for approximately 79.3% of 2018 loan production, as compared to approximately 71.9% in 2017.

Mortgage banking revenues decreased $8.3 million, or 22.3%, to $28.9 million in 2017, as compared to $37.2 million in 2016. The decrease is mainly attributable to a softening in the refinance market, given rising interest rates. Loans originated for home purchases accounted for approximately 71.9% of 2017 loan production, as compared to approximately 57.7% in 2016.

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Wealth management revenues are principally comprised of fees earned for management of trust assets and investment services. Wealth management revenues increased $2.1 million, or 10.0%, as compared to $21.1 million for the same period in 2017 and were stable in 2017, as compared to $20.5 million in 2016. The 2018 increase is driven by a concentrated effort on revenue growth through a consistent sales practice coupled with a change in our pricing exception protocol.

Service charges on deposit accounts were stable in 2018 at $21.8 million, as compared to $21.3 million for the same period in 2017 and increased $2.9 million, or 15.8%, in 2017, as compared to $18.4 million in 2016, primarily due to the BOTC acquisition in May 2017.

Other service charges, commissions and fees primarily include mortgage servicing fees, fees earned on certain derivative interest rate contracts and insurance commissions. Other service charges, commissions and fees increased $1.8 million, or 13.5%, as compared to the same period in 2017 and increased $1.8 million, or 15.7%, in 2017, as compared to $11.5 million in 2016, primarily due to the INB acquisition in August 2018 and the BOTC acquisition in May 2017, respectively. Additionally, mortgage loan servicing fee income increased year-over-year as a result of an increase in the number of loans serviced and additional fees earned on derivative interest rate swap contracts offered to customers.

Other income primarily includes company-owned life insurance revenues, check printing income, agency stock dividends and gains on sales of miscellaneous assets. Other income was relatively stable in 2018 at $15.1 million, as compared to $14.3 million for the same period in 2017. Other income increased $4.3 million, or 43.0%, in 2017, as compared to $10.0 million in 2016, primarily due to the one-time gain of $3.0 million on the sale of Health Savings Accounts.

During 2016, we recorded non-recurring litigation recoveries of $4.2 million related to a lender liability lawsuit originally settled in 2015.

Non-interest Expense

The following table presents the composition of our non-interest expense as of the dates indicated:

Non-interest expense
(Dollars in millions)

	Year Ended December 31,			% Change	
	2018	2017	2016	2018 vs 2017	2017 vs 2016
Salaries and wages	$146.4	$122.7	$108.7	19.3 %	12.9 %
Employee benefits	47.9	37.6	35.2	27.4	6.8
Outsourced technology services	28.7	25.1	20.5	14.3	22.4
Occupancy, net	25.4	22.4	17.7	13.4	26.6
Furniture and equipment	12.7	11.5	9.6	10.4	19.8
OREO expense, net of income	0.3	0.4	—	(25.0)	—
Professional fees	6.9	6.8	5.0	1.5	36.0
FDIC insurance premiums	5.6	4.7	4.5	19.1	4.4
Mortgage servicing rights amortization	3.1	3.0	3.0	3.3	—
Mortgage servicing rights impairment recovery	—	(0.1)	—	NM	NM
Core deposit intangibles amortization	7.9	5.5	3.4	43.6	61.8

Other expenses	63.6	57.1	50.6	11.4	12.8
Acquisition related expenses	12.4	27.2	2.8	(54.4)	871.4
Total non-interest expense	$360.9	$323.9	$261.0	11.4 %	24.1 %

Non-interest expense increased $37.0 million, or 11.4%, to $360.9 million in 2018, as compared to $323.9 million in 2017, and increased $62.9 million, or 24.1%, to $323.9 million in 2017, as compared to $261.0 million in 2016. Significant components of these increases are discussed in more detail below.

Salaries and wages expense increased $23.7 million, or 19.3%, to $146.4 million in 2018, as compared to $122.7 million in 2017. The increase was primarily due to inflationary wage increases, one-time separation payments, higher incentive compensation, and increased personnel costs associated with the INB acquisition in August 2018 and the full-year impact of the BOTC acquisition in May 2017.

Salaries and wages expense increased $14.0 million, or 12.9%, to $122.7 million in 2017, as compared to $108.7 million in 2016. The increase was primarily due to inflationary wage increases, one-time separation payments, and increased personnel costs associated with the BOTC acquisition in May 2017 and the full-year impact of the Flathead Bank acquisition in August 2016.

Employee benefits expense increased $10.3 million, or 27.4%, to $47.9 million in 2018, as compared to $37.6 million in 2017. The increase in employee benefits expense in 2018, as compared to 2017, was primarily due to higher profit sharing contributions and additional benefit costs resulting from the INB acquisition in August 2018 and the full-year impact of the BOTC acquisition in May 2017 and an increase in our group insurance costs.

Employee benefits expense increased $2.4 million, or 6.8%, to $37.6 million in 2017, as compared to $35.2 million in 2016. The increase in employee benefits expense in 2017, as compared to 2016, were due to additional benefits costs resulting from the BOTC acquisition in May 2017 and the full-year impact of the Flathead Bank acquisition in August 2016.

Outsourced technology services expense increased $3.6 million or 14.3%, to $28.7 million in 2018, as compared to $25.1 million in 2017. The increase was primarily due to expenses resulting from the INB acquisition in August 2018 and the full-year impact of the BOTC acquisition in May 2017.

Outsourced technology services expense increased $4.6 million or 22.4%, to $25.1 million in 2017, as compared to $20.5 million in 2016. The increase was primarily due to expenses resulting from the BOTC acquisition in May 2017.

Occupancy, net expense increased $3.0 million or 13.4%, to $25.4 million in 2018, as compared to $22.4 million in 2017. The increase was primarily due to expenses resulting from the INB acquisition in August 2018 and the full-year impact of the BOTC acquisition in May 2017.

Occupancy, net expense increased $4.7 million or 26.6%, to $22.4 million in 2017, as compared to $17.7 million in 2016. The increase was primarily due to expenses resulting from the BOTC acquisition in May 2017.

Core deposit intangibles represent the intangible value of depositor relationships resulting from deposit liabilities assumed, as a result of acquisitions, and are amortized based on the estimated useful lives of the related deposits. Core deposit intangibles amortization expense increased $2.4 million or 43.6%, to $7.9 million in 2018, as compared to $5.5 million in 2017, and increased $2.1 million or 61.8%, to $5.5 million in 2017, as compared to $3.4 million in 2016, due to additional amortization of core deposit intangibles recorded in conjunction with recent acquisitions. We acquired core deposit intangibles of $15.7 million in conjunction with our acquisition of INB in August 2018, $48.0 million in conjunction with our acquisition of BOTC in May 2017, and $2.5 million in conjunction with our acquisition of Flathead in August 2016. For additional information regarding acquired core deposit intangibles, see “Notes to Consolidated Financial Statements—Acquisitions,” included in Part IV, Item 15 of this report.

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 $6.5 million, or 11.4%, to $63.6 million in 2018, as compared to $57.1 million in 2017. Increases in other expenses are due to the additional operating expenses resulting from the INB acquisition in August 2018 and the BOTC acquisition in May 2017, and higher new market tax credit amortization as a result of our participation in additional new market tax credit projects.

Other expenses increased $6.5 million, or 12.8%, to $57.1 million in 2017, as compared to $50.6 million in 2016. Increases in other expenses are due to the additional operating expenses resulting from the BOTC acquisition in May 2017 and the Flathead Bank acquisition in August 2016. The increase is also due to higher advertising and promotional expenses incurred to promote the Company's brand awareness in its new markets in the West Division, along with consultant fees related to our client experience program.

During 2018, 2017 and 2016, we recorded acquisition related expenses of $12.4 million, $27.2 million and $2.8 million, respectively. Acquisition related expenses primarily include legal and professional fees; technology, conversion and contract termination costs; employee retention payments, and; travel expenses. For additional information regarding our acquisitions, 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 17.1% for the year ended December 31, 2018, 27.2% for the year ended December 31, 2017 and 29.7% for the year ended December 31, 2016. Our federal tax rate was reduced as a result of the Tax Cuts and Jobs Act enacted on December 22, 2017. The effective tax rate for 2017 was impacted by the adjustment of our deferred tax assets and liabilities related to the tax rate change as a result of the Tax Cuts and Jobs Act. Fluctuations in effective federal income tax rates are primarily due to the re-measurement of deferred tax assets and liabilities resulting from the enactment of federal tax reform for (2017 only), and the timing of federal tax credits resulting from our participation in the New Markets Tax Credits Program, a program through the U.S. Department of Treasury, aimed at attracting private capital into low-income communities. 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 California, Idaho, Montana, Oregon and South Dakota for 2018 and 2017 and Montana and South Dakota for 2016. Our effective state tax rate was 5.2% for the year ended December 31, 2018, 4.8% for the year ended December 31, 2017 and 4.4% for the year ended December 31, 2016.

Net Income

Net income was $160.2 million, or $2.75 per diluted share, in 2018, compared to $106.5 million, or $2.05 per diluted share, in 2017 and $95.7 million, or $2.13 per diluted share, in 2016. The after-tax impact of acquisition related expenses on earnings per share was $0.17, $0.34, and $0.04, respectively for the periods.

Summary of Quarterly Results

The following tables present the Company's summarized quarterly financial information for the fiscal years ended December 31, 2018 and 2017.
Quarterly Results (Unaudited)
(Dollars in millions except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2018 [1]				
Interest income	$ 107.6	$ 113.0	$ 121.2	$ 131.6
Interest expense	7.8	9.2	11.2	12.7
Net interest income	99.8	103.8	110.0	118.9
Provision for loan losses	2.1	2.9	2.0	1.6
Net interest income after provision for loan losses	97.7	100.9	108.0	117.3
Non-interest income	35.2	37.6	36.2	34.3
Non-interest expense	85.9	84.9	90.7	99.4
Income before income taxes	47.0	53.6	53.5	52.2
Income tax expense	10.3	11.9	12.1	11.8
Net income	$ 36.7	$ 41.7	$ 41.4	$ 40.4
Basic earnings per common share	$ 0.65	$ 0.74	$ 0.71	$ 0.67
Diluted earnings per common share	0.65	0.74	0.71	0.67
Dividends paid per common share	0.28	0.28	0.28	0.28

[1] Quarterly amounts may not add to annual amounts due to the effect of rounding on a quarterly basis.

Quarterly Results (Unaudited)
(Dollars in millions except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2017:				
Interest income	$ 74.4	$ 85.8	$ 108.8	$ 108.7
Interest expense	5.5	6.5	8.0	7.9
Net interest income	68.9	79.3	100.8	100.8
Provision for loan losses	1.7	2.3	3.5	3.5
Net interest income after provision for loan losses	67.2	77.0	97.3	97.3
Non-interest income	29.1	37.1	38.3	37.2
Non-interest expense	63.7	80.4	94.6	85.1
Income before income taxes	32.6	33.7	41.0	49.4
Income tax expense	9.4	11.8	13.7	15.2
Net income	$ 23.2	$ 21.9	$ 27.3	$ 34.2
Basic earnings per common share	$ 0.52	$ 0.46	$ 0.49	$ 0.61
Diluted earnings per common share	0.51	0.45	0.48	0.61
Dividends paid per common share	0.24	0.24	0.24	0.24

(1) Quarterly amounts may not add to annual amounts due to the effect of rounding on a quarterly basis.

Financial Condition

Total assets increased $1,086.9 million, or 8.9%, to $13,300.2 million as of December 31, 2018, from $12,213.3 million as of December 31, 2017, with $797.0 million of the increase attributable to the INB acquisition. The remaining increase was primarily due to the deployment of funds generated primarily through organic deposit growth into interest earning assets.

Total assets increased $3,149.4 million, or 34.7%, to $12,213.3 million as of December 31, 2017, from $9,063.9 million as of December 31, 2016, with $3,041.3 million of the increase attributable to the BOTC acquisition.

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 1 of this report.

Total loans increased $889.4 million, or 11.7%, to $8,503.7 million as of December 31, 2018, from $7,614.3 million as of December 31, 2017. Approximately $713.1 million of this increase was attributable to the acquisition of INB in August 2018. Exclusive of the INB acquisition, total loans grew organically $176.3 million, or 2.3%, with all major categories of loans held for investment showing growth.

Total loans increased $2,135.8 million, or 39.0%, to $7,614.3 million as of December 31, 2017, from $5,478.5 million as of December 31, 2016. Approximately $2,089.6 million of this increase was attributable to the acquisition of BOTC in May 2017. Exclusive of the BOTC acquisition, total loans grew organically $45.1 million, or 0.8%, with the most notable growth occurring in commercial real estate, indirect consumer, and commercial loans. These increases were partially offset by declines in construction and agricultural real estate loans.

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The following table presents the composition of our loan portfolio as of the dates indicated:
Loans Outstanding
(Dollars in millions)

	As of December 31,									
	2018	Percent	2017	Percent	2016	Percent	2015	Percent	2014	Percent
Loans										
Real estate:										
Commercial	$3,235.4	38.0 %	$2,822.9	37.1 %	$1,834.4	33.5 %	$1,793.3	34.2 %	$1,639.4	33.6 %
Construction	838.7	9.9	708.3	9.3	482.0	8.8	430.7	8.2	418.3	8.5
Residential	1,542.0	18.1	1,487.4	19.5	1,027.4	18.8	1,032.9	19.7	999.9	20.4
Agricultural	217.4	2.6	158.2	2.1	170.2	3.1	156.2	3.0	167.6	3.4
Consumer	1,070.2	12.6	1,034.4	13.6	970.3	17.7	844.4	16.1	762.5	15.6
Commercial	1,310.3	15.4	1,215.4	15.9	797.9	14.6	792.4	15.1	740.1	15.1
Agricultural	254.8	3.0	136.2	1.8	132.9	2.4	142.2	2.7	124.8	2.5
Other loans	1.6	—	4.9	0.1	1.6	—	1.3	—	4.0	0.1
Mortgage loans held for sale	33.3	0.4	46.6	0.6	61.8	1.1	52.9	1.0	40.8	0.8
Total loans	8,503.7	100.0%	7,614.3	100.0%	5,478.5	100.0%	5,246.3	100.0%	4,897.4	100.0%
Less allowance for loan losses	73.0		72.1		76.2		76.8		74.2	
Net loans	$8,430.7		$7,542.2		$5,402.3		$5,169.5		$4,823.2	
Ratio of allowance to total loans	0.86 %		0.95 %		1.39 %		1.46 %		1.52 %	

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 49.2% and 47.1% of our commercial real estate loans were owner occupied as of December 31, 2018 and 2017, respectively. Commercial real estate loans increased $412.5 million, or 14.6%, to $3,235.4 million as of December 31, 2018, from $2,822.9 million as of December 31, 2017. Exclusive of $303.8 million of INB acquired loans, commercial loans increased organically $108.7 million, or 3.9%. Organic growth primarily occurred in Western Montana and Wyoming.

Commercial real estate loans increased $988.5 million or 53.9%, to $2,822.9 million as of December 31, 2017, from $1,834.4 million as of December 31, 2016, with approximately 96.9% of the increase attributable to the BOTC acquisition.

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. As of December 31, 2018, our construction loan portfolio was divided among the following categories: approximately $242.8 million, or 28.9%, residential construction; approximately $274.3 million, or 32.7%, commercial construction; and, approximately $321.6 million, or 38.4%, land acquisition and development. This compares to approximately $240.2 million, or 33.9%, residential construction; approximately $119.4 million, or 16.9%, commercial construction; and, approximately $348.7 million, or 49.2%, land acquisition and development as of December 31, 2017.

Construction loans increased $130.4 million, or 18.4%, to $838.7 million as of December 31, 2018, from $708.3 million as of December 31, 2017. Exclusive of $64.0 million of INB acquired loans, construction loans increased organically $66.4 million, or 9.4%, due to increases in commercial construction loans, which were partially offset by decreases in land acquisition and development and residential construction loans. Construction loans increased $226.3 million, or 46.9%, to $708.3 million as of December 31, 2017, from $482.0 million as of December 31, 2016, with the increase attributable to the BOTC acquisition. Exclusive of acquired loans, construction loans decreased organically $11.1 million, or 2.3%, due to decreases in land acquisition and development and commercial construction loans, which were partially offset by an increase in residential construction loans.

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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 $409.5 million and $397.0 million as of December 31, 2018 and December 31, 2017, respectively. Residential real estate loans increased $54.6 million, or 3.7%, to $1,542.0 million as of December 31, 2018, from $1,487.4 million as of December 31, 2017. Exclusive of $83.0 million of INB acquired loans, residential real estate loans decreased $28.4 million, or 1.9%.

Residential real estate loans increased $460.0 million, or 44.8%, to $1,487.4 million as of December 31, 2017, from $1,027.4 million as of December 31, 2016, with the increase attributable to the BOTC acquisition. Exclusive of acquired loans, residential real estate loans were constant from December 31, 2016.

During 2018 and 2017, we sold most of our residential real estate loan production to secondary investors.

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 73.6% and 75.9% of our consumer loans as of December 31, 2018 and 2017, respectively, were indirect consumer loans.

Consumer loans increased $35.8 million, or 3.5%, to $1,070.2 million as of December 31, 2018, from $1,034.4 million as of December 31, 2017. Exclusive of $7.7 million of INB acquired loans, consumer loans increased organically $28.1 million, or 2.7%, across all consumer loan categories. Consumer loans increased $64.1 million, or 6.6%, to $1,034.4 million as of December 31, 2017, from $970.3 million as of December 31, 2016, with approximately $42.8 million of the increase attributable to the BOTC acquisition. Exclusive of acquired loans, consumer loans increased organically $21.3 million, or 2.2%, primarily due to an increase in indirect consumer loans, which was partially offset by decreases in direct consumer and credit card loans.

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 and outstanding balances tend to be cyclical in nature. The loans are generally made with business operations as the primary source of repayment, and are typically collateralized by inventory, accounts receivable, equipment and/or personal guarantees.

Commercial loans increased $94.9 million, or 7.8%, to $1,310.3 million as of December 31, 2018, from $1,215.4 million as of December 31, 2017. Exclusive of $110.9 million of INB acquired loans, commercial loans decreased $16.0 million, or 1.3%. Commercial loans increased $417.5 million, or 52.3%, to $1,215.4 million as of December 31, 2017, from $797.9 million as of December 31, 2016. Exclusive of the BOTC acquisition, commercial loans increased $27.5 million primarily due to organic growth across the footprint.

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 $118.6 million, or 87.1%, to $254.8 million as of December 31, 2018, from $136.2 million as of December 31, 2017. Exclusive of $101.7 million of INB acquired loans, agricultural loans increased organically $16.9

million, or 12.4%. The increase is primarily attributable to Montana and South Dakota. Agricultural loans increased $3.3 million, or 2.5%, to $136.2 million as of December 31, 2017, from $132.9 million as of December 31, 2016. Exclusive of agricultural loans acquired in the BOTC acquisition, agricultural loans increased $2.6 million, or 2.0%.

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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, 2018:
Maturities and Interest Rate Sensitivities
(Dollars in millions)

	Within One Year	One Year to Five Years	After Five Years	Total
Real estate	$1,605.1	$2,388.6	$1,839.8	$5,833.5
Consumer	329.7	649.7	90.8	1,070.2
Commercial	621.0	529.7	159.6	1,310.3
Agricultural	205.6	45.7	3.5	254.8
Other	—	—	1.6	1.6
Mortgage loans held for sale	33.3	—	—	33.3
Total loans	$2,794.7	$3,613.7	$2,095.3	$8,503.7
Loans at fixed interest rates	$1,517.1	$2,216.8	$339.9	$4,073.8
Loans at variable interest rates	1,277.6	1,396.9	1,701.1	4,375.6
Non-accrual loans	—	—	54.3	54.3
Total loans	$2,794.7	$3,613.7	$2,095.3	$8,503.7

Non-Performing Assets

Non-performing assets include non-accrual loans, loans contractually past due by 90 days or more and still accruing interest, 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,	2018	2017	2016	2015	2014
Non-performing loans:					
Non-accrual loans	$54.3	$69.4	$72.8	$66.3	$62.2
Accruing loans past due 90 days or more	3.8	3.1	3.8	5.6	2.5
Total non-performing loans	58.1	72.5	76.6	71.9	64.7
OREO	14.4	10.1	10.0	6.3	13.6
Total non-performing assets	$72.5	$82.6	$86.6	$78.2	$78.3
Troubled debt restructurings not included above (1)	$5.6	$12.6	$22.3	$15.4	$21.0
Non-performing loans to total loans (2)	0.68 %	0.95 %	1.40 %	1.37 %	1.32 %
Non-performing assets to total loans and OREO (3)	0.85	1.08	1.58	1.49	1.59
Non-performing assets to total assets (4)	0.55	0.68	0.96	0.90	0.91
Allowance for loan losses to non-performing loans (5)	125.65	99.40	99.52	106.71	114.58

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

(2) Including accruing troubled debt restructurings described in footnote 1, the ratio of non-performing loans to total loans would be 0.75%, 1.12%, 1.81%, 1.67% and 1.75% as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(3) Including accruing troubled debt restructurings described in footnote 1, the ratio of non-performing assets to total loans and OREO would be 0.92%, 1.25%, 1.98%, 1.78% and 2.02% as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(4) Including accruing troubled debt restructurings described in footnote 1, the ratio of non-performing assets to total assets would be 0.59%, 0.78%, 1.20%, 1.07% and 1.15% as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(5) Including accruing troubled debt restructurings described in footnote 1, the ratio of allowance for loan losses to non-performing loans would be 114.55%, 84.72%, 77.04%, 87.89% and 86.57% as of December 31, 2018, 2017, 2016, 2015, and 2014, 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 update valuations on collateral underlying oil and gas credits based on recent market-based oil price forecasts provided by an independent third party. We also 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 collateral valuation is compared to the loan balance and any resulting shortfall is recorded in the allowance for loan losses as a specific valuation allowance. Provisions for loan losses are impacted by changes in the specific valuation allowances and historical or general valuation elements of the allowance for loan losses.

Total non-performing loans decreased $14.4 million, or 19.9%, to $58.1 million as of December 31, 2018, from $72.5 million as of December 31, 2017. Non-accrual loans, the largest component of non-performing loans, decreased $15.1 million, or 21.8%, to $54.3 million as of December 31, 2018, from $69.4 million as of December 31, 2017. This decrease was primarily due to the movement of non-performing loans out of the portfolio through pay-downs, charge-offs and the sale of $9.3 million of construction and commercial real estate loans.

Total non-performing loans increased $4.1 million, or 5.4%, to $72.5 million as of December 31, 2017, from $76.6 million as of December 31, 2016. Non-accrual loans decreased $3.3 million, or 4.6%, to $69.5 million as of December 31, 2017, from $72.8 million as of December 31, 2016. This decrease was primarily due to the movement of non-performing loans out of the portfolio through pay-downs, charge-offs and foreclosures.

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 millions)

	As of December 31,									
	2018	Percent	2017	Percent	2016	Percent	2015	Percent	2014	Percent
Real estate:										
Commercial	$10.0	17.2 %	$27.1	37.4 %	$26.5	34.6 %	$24.2	33.6 %	$27.7	42.8 %
Construction:										
Land acquisition and development	3.9	6.7	3.3	4.6	5.3	6.9	7.9	11.0	8.2	12.7
Residential	1.0	1.7	1.7	2.3	0.5	0.6	0.3	0.4	0.3	0.4
Commercial	0.2	0.3	3.8	5.2	0.8	1.0	1.0	1.3	2.6	4.0
Total construction	5.1	8.7	8.8	12.1	6.6	8.5	9.2	12.7	11.1	17.1
Residential	6.8	11.8	8.6	11.8	7.1	9.3	7.3	10.2	4.6	7.0
Agricultural	12.6	21.7	3.6	5.0	4.3	5.7	5.3	7.4	6.8	10.6
Total real estate	34.5	59.4	48.1	66.3	44.5	58.1	46.0	63.9	50.2	77.5
Consumer	3.5	6.0	3.3	4.6	2.9	3.8	1.9	2.7	1.3	2.0
Commercial	17.1	29.4	20.3	28.0	26.2	34.2	23.0	32.0	12.8	19.8
Agricultural	3.0	5.2	0.8	1.1	3.0	3.9	0.7	1.0	0.4	0.7
Other	—	—	—	—	—	—	0.3	0.4	—	—
Total non-performing loans	$58.1	100.0%	$72.5	100.0%	$76.6	100.0%	$71.9	100.0%	$64.7	100.0%

Non-accrual loans. We generally place loans, excluding acquired credit impaired 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. If all loans on non-accrual status had been current in accordance with their original terms, gross interest income of approximately $3.0 million, $3.5 million and $3.4 million would have been accrued for the years ended December 31, 2018, 2017 and 2016, respectively.

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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.

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 increased $4.3 million, or 42.6%, to $14.4 million as of December 31, 2018, from $10.1 million as of December 31, 2017. During 2018, we recorded additions to OREO of $12.1 million, acquired $0.6 million in conjunction with the INB acquisition, wrote down the fair value of OREO properties by $0.1 million and sold OREO with a book value of $8.3 million. As of December 31, 2018, 17.2% of our OREO balance related to land and land development properties, 68.5% to commercial properties, 13.9% to residential real estate properties and 0.4% to construction properties.
OREO remained constant at $10.1 million as of December 31, 2017 as compared to December 31, 2016. During 2017, we recorded additions to OREO of $6.6 million, $1.2 million of which was acquired in conjunction with the BOTC acquisition, wrote down the fair value of OREO properties by $0.4 million and sold OREO with a book value of $6.1 million. As of December 31, 2017, 18.7% of our OREO balance related to land and land development properties, 54.1% to commercial properties, 26.6% to residential real estate properties and 0.6% to construction properties.
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, 2018, we had loans renegotiated in troubled debt restructurings of $23.4 million, of which $17.8 million were reported as non-accrual loans in the non-performing asset and troubled debt restructurings and non-performing loan tables above. The remaining $5.6 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, 2017, we had loans renegotiated in troubled debt restructurings of $44.5 million, of which $31.9 million were reported as non-accrual loans in the non-performing asset and troubled debt restructurings and non-performing loan tables above. The remaining $12.6 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.

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Allowance for Loan Losses

The Company performs a quarterly assessment of the adequacy of its allowance for loan losses in accordance with GAAP. 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 net recoveries of charged-off loans and is reduced by negative provisions credited to earnings and net loan charge-offs. Loans, or portions thereof, are charged-off when management believes that the collectability 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:

(1) 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, 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.

(2) 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 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 three-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, the Company records provisions for loan losses to maintain the allowance for loan losses at appropriate levels.

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 the Company's expectations at the date of acquisition, an allowance for loan losses is established. As of December 31, 2018 and 2017, management determined that an allowance of $0.8 million and $1.0 million, respectively, related to loans acquired in prior year acquisitions with evidence of credit impairment was required under GAAP.

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 or (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.

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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, the Company 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.
During 2018, we recorded provisions for loan losses of $8.6 million, as compared to $11.0 million in 2017. The decrease in provisions for loan losses during 2018, as compared to 2017, is reflective of improved credit quality and lower levels of net loan charge-offs.

During 2017, we recorded provisions for loan losses of $11.0 million, as compared to $10.0 million in 2016. Increases in provisions for loan losses during 2017, as compared to 2016, are reflective of higher levels of net loan charge-offs.

The following table sets forth information regarding our allowance for loan losses as of the dates and for the periods indicated.
Allowance for Loan Losses
(Dollars in millions)

As of and for the year ended December 31,	2018	2017	2016	2015	2014
Balance at the beginning of period	$72.1	$76.2	$76.8	$74.2	$85.3
Charge-offs:					
Real estate					
Commercial	1.9	2.3	3.5	0.3	2.0
Construction	0.7	0.8	0.7	2.4	0.3
Residential	1.1	1.2	1.0	0.7	0.7
Agricultural	—	—	—	0.7	—
Consumer	11.3	11.3	8.6	5.6	4.9
Commercial	4.7	6.8	5.8	1.7	6.0
Agricultural	—	0.4	0.2	0.2	0.1
Total charge-offs	19.7	22.8	19.8	11.6	14.0
Recoveries:					
Real estate					
Commercial	1.9	0.9	0.5	1.8	1.0
Construction	0.9	0.2	1.8	0.9	2.0
Residential	0.9	0.3	0.3	0.4	0.4
Agricultural	—	—	0.6	—	—
Consumer	4.5	4.2	2.8	2.6	2.3
Commercial	3.6	2.1	3.2	1.7	3.8
Agricultural	0.2	—	—	—	—
Total recoveries	12.0	7.7	9.2	7.4	9.5
Net charge-offs	7.7	15.1	10.6	4.2	4.5
Provision for loan losses	8.6	11.0	10.0	6.8	(6.6)
Balance at end of period	$73.0	$72.1	$76.2	$76.8	$74.2
Period end loans	$8,503.7	$7,614.3	$5,478.5	$5,246.2	$4,897.4
Average loans	7,985.0	6,675.4	5,378.3	5,056.8	4,602.9
Net charge-offs to average loans	0.10				