FIRST INTERSTATE BANCSYSTEM INC
Form 10-K
March 02, 2017

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, 2016
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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files). 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter, was $665,604,447.
Indicate the number of shares outstanding of each of the registrant’s classes of common stock as of January 31, 2017:
Class A common stock 21,753,730
Class B common sock 23,241,905
Documents Incorporated by Reference
The registrant intends to file a definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 24, 2017. The information required by Part III of this Form 10-K is incorporated by reference from such Proxy Statement.

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PART I
Item 1. Business

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

Our Company

We are a financial and bank holding company incorporated as a Montana corporation in 1971. We are headquartered in Billings, Montana. As of December 31, 2016, we had consolidated assets of $9.1 billion, deposits of $7.4 billion, loans of $5.5 billion and total stockholders' equity of $983 million. We currently operate 80 banking offices, including detached drive-up facilities, in 46 communities located in Montana, Wyoming and South Dakota. We also offer internet and mobile banking services. Through our wholly-owned subsidiary, First Interstate Bank, or FIB, we deliver a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities throughout our market areas. Our customers participate in a wide variety of industries, including energy, healthcare and professional services, education and governmental services, construction, mining, agriculture, retail and wholesale trade and tourism. Our principal markets range in size from approximately 23,000 to 150,000 people, have diversified economic characteristics and positive population growth prospects and usually serve as trade centers for larger rural areas.

In January 2017, we acquired for cash, all rights, title and interest in and to all First Interstate-related U.S. trademark registrations, or Trademarks, domain names and common law rights and goodwill associated with the Trademarks that were previously owned by Wells Fargo & Company. We are now able to use the "First Interstate" name and logo throughout the United States.

Our goal is to be the premier financial services provider within the communities we serve. We are committed to be 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 disciplined perspective that emphasizes our commitment to providing high-quality financial products and services, delivering quality client service, effecting business leadership through professional and dedicated managers and employees, assisting our communities through socially responsible leadership and cultivating a strong and positive corporate culture. We intend to remain a leader in our markets by continuing to adhere to these core values that have contributed to our growth and success. In addition, we plan to continue to expand our business in a disciplined and prudent manner, including organic growth in our existing market areas and expansion into new and complementary markets when appropriate opportunities arise.

Recent Acquisitions

On April 6, 2016, our bank subsidiary, FIB, entered into a stock purchase agreement to acquire 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 on August 12, 2016 for cash consideration of $34 million. Flathead Bank was merged with FIB immediately subsequent to the acquisition. As of the date of the acquisition, Flathead Bank had total assets of $254 million, loans of $83 million and deposits of $210 million.

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

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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 Acquisition of Cascade Bancorp

On November 17, 2016, we entered into an agreement and plan of merger, the Agreement, to acquire all of the outstanding stock of Cascade Bancorp, parent company of Bank of the Cascades, an Oregon-based community bank with 50 banking offices across Oregon, Idaho and Washington. Under the terms of the Agreement, each outstanding share of Cascade Bancorp will convert into the right to receive 0.14864 shares of our Class A common stock and $1.91 in cash. Based on the closing price of the our Class A common stock on December 31, 2016, the merger consideration represents an aggregate purchase price of approximately $628 million. Upon completion of the merger, which is expected to close during third quarter 2017 subject to regulatory and shareholder approvals, we will become a regional community bank with over $12 billion in total assets with a geographic footprint that will span Montana, Wyoming, South Dakota, Idaho, Oregon and Washington.

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

While each loan must meet minimum underwriting standards established in our credit policies, lending officers are granted certain levels of authority in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area. Lending authorities are established at individual, branch and market levels. Branch loan officers are granted levels of credit authority in approving and pricing loans to assure that our banking offices are responsive to competitive issues and community needs in each market area. 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 his designee and is reviewed on an ongoing basis. Credits over the authority of branch loan officers are approved by our credit administration group.

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Deposit Products

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

Wealth Management

We provide a wide range of trust, employee benefit, investment management, insurance, agency and custodial services to individuals, businesses and nonprofit organizations. These services include the administration of estates and personal trusts; management of investment accounts for individuals, employee benefit plans and charitable foundations; and insurance planning. As of December 31, 2016, the estimated fair value of trust assets held in a fiduciary or agent capacity was $4.9 billion.

Centralized Services

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

Competition

There is significant competition among commercial banks in our market areas. We also compete with other providers of financial services, such as savings and loan associations, credit unions, financial technology companies, internet banks, consumer finance companies, brokerage firms, mortgage banking companies, insurance companies, securities firms, mutual funds and certain government agencies as well as major retailers, all actively engaged in providing various types of loans and other financial services. Some of our competitors have greater resources and, as such, may have higher lending limits and may offer other services that we do not provide. We generally compete on the basis of customer service and responsiveness to customer needs, available loan and deposit products, rates of interest charged on loans, rates of interest paid for deposits, and the availability and pricing of trust, employee benefit, investment and insurance services.

Employees

We recognize quality, engaged employees are critical to our ability to serve our customers and to the success of our company. We strive to be the employer of choice in the markets we serve. At December 31, 2016, we employed 1,721 full-time equivalent employees, none of whom are represented by a collective bargaining agreement. We consider our employee relations to be good. This is supported by the results of an employee engagement survey, in which 96% of our employees participated with an average engagement score of 76%.

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. In addition to laws and regulations, state and federal banking regulatory agencies may issue policy statements, interpretive letters and similar written guidance. Those issuances may affect the conduct of our business or impose additional regulatory obligations. Descriptions of statutory and regulatory provisions and requirements do not purport to be complete and are qualified in their entirety by reference to those provisions.

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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, or Federal Reserve. Because we are a public company, we are also subject to the disclosure and regulatory requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as administered by the Securities and Exchange Commission, or the SEC.

The Bank is subject to supervision and regular examination by its primary banking regulators, the Federal Reserve and the Montana Department of Administration, Division of Banking and Financial Institutions, or Montana Division. Although the Bank is not currently directly supervised by the Consumer Financial Protection Bureau, or CFPB, certain of the Bank's consumer banking activities are also subject to CFPB regulations.

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

The extensive regulation of the Bank limits both the activities in which the Bank may engage and the conduct of its permitted activities. Further, the laws and regulations impose reporting and information collection obligations on the Bank. The Bank incurs significant costs relating to compliance with various laws and regulations and the collection and retention of information. As the regulatory framework for bank holding companies and banks continues to grow and become more complex, the cost of complying with regulatory requirements continues to increase. In addition, when our consolidated assets exceed $10 billion, we will become subject to additional statutory and regulatory requirements and would incur additional compliance costs. As of December 31, 2016, our consolidated assets were $9.1 billion. However, the pending acquisition of Cascade Bancorp, if consummated, would cause us to exceed $10 billion in assets.

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. 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 Wall Street Reform and Consumer Protection Act of 2010, or 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 December 31, 2016, the Bank controlled approximately 18% 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.

We have voluntarily registered with the Federal Reserve as a financial holding company. As a financial holding company, we may engage in certain business activities that are determined by the Federal Reserve to be financial in nature or incidental to financial activities as well as all activities authorized to bank holding companies generally.

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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.

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

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. Under both state and federal law, the amount of dividends that may be paid by the Bank from time to time is limited. In general, the Bank is limited to paying dividends that do not exceed the current year net profits together with retained earnings from the two preceding calendar years unless the prior 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.

In general, a bank is also prohibited from making capital distributions, including dividends, if it would be “under-capitalized” under the regulatory framework for corrective action after making such payments. See “Capital Standards and Prompt Corrective Action.”

The Federal Reserve has issued a policy statement regarding the payment of dividends and the repurchase of shares 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.

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.

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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.

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%, and a 4% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments 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. 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% 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 being 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.

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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. However, because we met the criteria for grandfathering under the Dodd-Frank Act, the limitations on use of hybrid capital instruments do not apply to our outstanding instruments.

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.

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 that 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. We currently have less than $10 billion in assets, but would exceed that threshold upon consummation of the pending Cascade Bancorp acquisition.

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.

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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. However, under the Dodd-Frank Act, the effects of any increases in deposit insurance premium assessments necessary to achieve the 1.35% reserve ratio are to be offset for the benefit of depository institutions with total consolidated assets of less than $10 billion, once the ratio reaches 1.15%. The 1.15% ratio was achieved on or about June 30, 2016. 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. This system will remain in place until the earlier of the DIF reaching the 1.35% ratio or December 31, 2018. If the ratio has not been achieved by that date, a shortfall assessment would be applied. The Bank currently has total consolidated assets of less than $10 billion, but would reach that threshold upon consummation of the pending Cascade Bancorp acquisition.

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 FICO assessment rates are set at 0.00056% of total assets and will continue until the FICO bonds mature in 2017 through 2019.

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

The Truth in Lending Act, or TILA, 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.

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

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

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

The Electronic Fund Transfer Act regulates fees and other terms on electronic funds transactions.

The Federal Reserve has issued regulations relating to fees and charges in debit card transactions to implement provisions of the Dodd-Frank Act. Card issuers with consolidated assets of less than $10 billion are exempt from the interchange fee standards but are subject to other rules addressing exclusivity and other requirements. The Bank is not currently subject to the interchange fee standards, since its consolidated assets are less than $10 billion. However, if the pending Cascade Bancorp acquisition if consummated, it would put us over $10 billion in assets. Based on our 2016 debit card transaction volume, we estimate interchange fee caps prescribed under the Dodd-Frank Act for issuers with consolidated assets in excess of $10 billion would have reduced our debit card interchange fee income by approximately $8 million.

The federal consumer protection scheme was revised by the Dodd-Frank Act. Among other things, the CFPB was created with authority to regulate consumer financial products and services and implement and enforce federal consumer financial laws. Although the CFPB is accorded examination and enforcement authority, the CFPB's authority does not generally extend to depository institutions with total assets of less than $10 billion. The Bank currently has total assets of less than $10 billion and therefore has continued to be examined by the Federal Reserve for compliance with federal consumer protection laws. However, the Bank will become subject to CFPB examination and enforcement authority when it exceeds $10 billion in assets, which will occur if the pending Cascade Bancorp acquisition is consummated.

The Community Reinvestment Act, or CRA, generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be assessed for a violation of fair lending laws, the federal banking agencies may take compliance with such laws and the CRA into account when 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 o its most recent published examination. Although the Bank's policies and procedures are designed to achieve compliance with all fair lending and CRA requirements, instances of non-compliance are occasionally identified through normal operational activities. Management responds pro-actively to correct all instances of non-compliance and implement procedures to prevent further violations from occurring.

USA PATRIOT Act

The USA PATRIOT Act of 2001 amended the Bank Secrecy Act of 1970 and the Money Laundering Control Act of 1986 and adopted additional measures requiring insured depository institutions, broker-dealers and certain other financial institutions to have policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The 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.

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Office of Foreign Asset Control

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

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 2017, 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

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

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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. Readers should consider carefully the following important factors in evaluating us, our business and an investment in our securities.

Risks Relating to the Market and Our Business

A worsening of economic conditions could reduce demand for our products and services and/or result in increases in our level of non-performing loans, which could have an adverse effect on our results of operations.

Our customers are located predominantly in Montana, Wyoming and South Dakota. Our profitability depends primarily on the general economic conditions in these areas. Local economic conditions have a significant impact on our commercial real estate and construction and consumer loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans.

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, in turn reducing customers’ future borrowing power, and reducing the value of assets and collateral associated with existing loans;
- 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.

Moreover, 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 factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could 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 financial performance.

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. Our lending is affected by increases in interest rates and/or weakening economic conditions, each of which could adversely impact the ability of borrowers to repay outstanding loans or impact the value of the collateral securing these loans, resulting in higher delinquencies, repossessions and losses, which would have an adverse impact on our business, financial condition, results of operations and prospects. We are also subject to various laws and regulations that affect our lending activities. Failure to comply with applicable laws and regulations could subject us to regulatory enforcement action.

At December 31, 2016, we had $2.6 billion of commercial loans, including $1.8 billion of commercial real estate loans, representing approximately 48% 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, 2016, we had $1.7 billion of agricultural, construction, residential and other real estate loans, representing approximately 31% of our total loan portfolio. Deterioration in economic conditions or in the real estate market could result in increased delinquencies and foreclosures and could have an adverse effect on the collateral value for many of these loans and on the repayment ability of many of our borrowers. Deterioration in economic conditions or in the real estate market could 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 could negatively impact our net interest income, may weaken demand for our products and services or harm our results of operations and cash flows.

Our earnings and cash flows are largely dependent upon net interest income, which is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also adversely affect (1) our ability to originate loans and obtain deposits, (2) the fair value of our financial assets and liabilities, including mortgage servicing rights, (3) our ability to realize gains on the sale of assets and (4) the average duration of our mortgage-backed securities and collateralized mortgage obligations portfolios. An increase in interest rates may reduce customers' desire to borrow money from us as it increases their borrowing costs and may adversely affect the ability of borrowers to pay the principal or interest on loans, which may lead to an increase in non-performing assets and a reduction of income recognized. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our cash flows, financial condition and results of operations.

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

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

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, 2016, our direct exposure to the oil and gas industry was approximately $59 million in outstanding loans, including approximately $43 million related to drilling and extraction activity and approximately $16 million advanced to oil and gas service companies. As of December 31, 2016, we also had commitments to lend an additional $25 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, 2016, 76.3% 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.

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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.

We will become subject to additional regulatory requirements if our total assets exceed $10 billion, which could have an adverse effect on our financial condition or results of operations.

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

Following the fourth consecutive quarter (and any applicable phase-in period) where our or the Bank's total consolidated assets equal or exceed $10 billion, we or the Bank, as applicable, will be subject to the following Dodd-Frank Act provisions, among others:

- The Dodd-Frank Act created the CFPB, which has broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. Currently, the Federal Reserve Board and the Montana Division examine the Bank for compliance with consumer protection laws. However, the CFPB has examination and enforcement authority over all banks with more than $10 billion in assets, and accordingly will assume examination and enforcement authority over us should we exceed $10 billion in total assets.

- The Dodd-Frank Act has limited the interchange fees for electronic debt transactions by a payment card issuer to $0.21 plus five basis points times the value of the transaction, plus up to $0.01 for fraud prevention costs. Should we exceed $10 billion in total assets, our interchange revenue will be significantly lower.

- The Dodd-Frank Act established 1.35% as the minimum DIF reserve ratio and has adopted a plan under which it will meet the statutory minimum fund reserve ratio of 1.35% by September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect of the increase in the statutory minimum fund reserve ratio to 1.35% from the former statutory minimum of 1.15% on institutions with assets less than $10 billion. Should we exceed $10 billion in total assets, we will not be entitled to benefit from the offset.

- The Dodd-Frank Act requires a publicly traded bank holding company with $10 billion or more in assets to establish and maintain a risk committee responsible for oversight of enterprise-wide risk management practices, which must be commensurate with the bank's structure, risk profile, complexity, activities and size.

- A bank holding company with more than $10 billion in assets is required under the Dodd-Frank Act to conduct annual stress tests to determine whether the capital planning of the combined company, assessment of its capital adequacy and risk management practices adequately protect it and its affiliates in the event of an economic downturn. The results of the annual stress tests are reported to the Federal Reserve Board, and it will be required to consider the results of the company's stress tests as part of its capital planning and risk management practices.

While we do not currently have $10 billion or more in total consolidated assets, if our announced acquisition of Cascade Bancorp is completed as expected, our total consolidated assets will exceed $10 billion during the third quarter of 2017. Assuming the merger is consummated, we anticipated we will become subject to the Dodd-Frank Act stress testing requirements commencing on January 1, 2019.

It is difficult to predict the overall cost of complying with the Dodd-Frank Act. Compliance with the Dodd-Frank Act requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, engage external consultants or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities.

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We may be unable to successfully integrate or profitably operate acquired organizations, which could have an adverse effect on our financial condition or results of operations.

Acquisitions of other banks and financial institutions involves the integration of two companies that have previously operated independently. The difficulties of combining the operations of the two companies include, among other things: integrating personnel with diverse business backgrounds; combining different corporate cultures; and retaining key employees. The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the business and the loss of key personnel. The integration of the two companies may require the experience and expertise of certain key employees of the target company that we expect to retain. We may not be successful in retaining these employees for the time period necessary to successfully integrate the acquired company's operations with ours. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies' operations could have an adverse effect on our business and results of operations following the merger.

Additionally, we may not be able to successfully achieve the level of cost savings, revenue enhancements, and other synergies that we expect, and may not be able to capitalize upon the existing customer relationships of the acquired company to the extent anticipated, or it may take longer, or be more difficult or expensive than expected, to achieve these goals. This could have an adverse effect on our business, results of operation and stock price.

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

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

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

The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely impairment has occurred. In testing for impairment, the fair value of net assets is estimated based on analyses of our market value, discounted cash flows and peer values. Consequently, the determination of the fair value of goodwill is sensitive to market-based economics and other key assumptions. Variability in market conditions or in key assumptions could result in impairment of goodwill, which is recorded as a 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, 2016, we had goodwill of $213 million, or 22% of our total stockholders' equity. Further, the acquisition of Cascade Bancorp may significantly increase the amount of our goodwill, which could increase impairment losses.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board, or 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. The FASB proposed amendments to its guidance on the credit impairment of financial instruments. The proposed 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, or CECL rather than incurred losses. The CECL model would apply to most debt instruments, including loan receivables and loan commitments.

Unlike the incurred loss models in existing generally accepted accounting principles, the CECL model does not specify a threshold for the recognition of an impairment allowance. Rather, we would recognize an impairment allowance equal to our current estimate of expected credit losses for financial instruments as of the end of the reporting period. This will change the current method of providing allowances for credit losses that are probable, which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses.

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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 do not currently have employment agreements or non-competition agreements with any of our key executives, other than an employment agreement with our president and chief executive officer, Kevin P. Riley. The unanticipated loss or unavailability of key employees could harm our ability to operate our business or execute our business strategy. We may not be successful in retaining these key employees or finding and integrating suitable successors in the event of their loss or unavailability.

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

As a result of low unemployment rates in Montana, Wyoming, South Dakota and the surrounding region, there is substantial competition for qualified personnel in our markets. It may be difficult for us to attract and retain qualified employees at all management and staffing levels. Failure to attract and retain employees and maintain adequate staffing of qualified personnel could adversely impact our operations and our ability to execute our business strategy. Furthermore, relatively low unemployment rates in certain of our markets may lead to significant increases in salaries, wages and employee benefits expenses as we compete for qualified, skilled employees, which could negatively impact our results of operations and prospects.

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

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a financial company's stockholders. These regulations may impose significant limitations on operations. The significant federal and state banking regulations that affect us are described in this report under the heading “Regulation and Supervision.” These regulations, along with the currently existing tax, accounting, securities, insurance, employment, monetary and other laws and regulations, rules, standards, policies and interpretations control the methods by which we conduct business, implement strategic initiatives and tax compliance and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are undergoing significant review and changes, particularly given the recent market developments in the banking and financial services industries and the enactment of the Dodd-Frank Act in July 2010.

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

We have become subject to more stringent capital requirements, which may adversely impact our return on equity, or constrain us from paying dividends or repurchasing shares.

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. The final rule implements the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule included new 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 new minimum capital requirements are: (1) a common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (3) a total capital ratio of 8% (unchanged from prior rules); and (4) a Tier 1 leverage ratio of 4%. The final rule also 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. The final rule also established a “capital conservation buffer” of 2.5%, that, when fully phased in, will result in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%, (2) a Tier 1 to risk-based assets capital ratio of 8.5%, and (3) a total capital ratio of 10.5%. Phase in of the new capital conservation buffer requirement began in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. 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.

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The application of more stringent capital requirements could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions constraining us from paying dividends or repurchasing shares if we were to be unable to comply with such requirements.

The FDIC has adopted a plan to increase the federal DIF, including additional future premium increases and special assessments.

The Dodd-Frank Act broadened the base for FDIC insurance assessments and assessments are now based on the average consolidated total assets less average tangible equity capital of a financial institution. In addition, the Dodd-Frank Act established 1.35% as the minimum DIF reserve ratio and has adopted a plan under which it will meet the statutory minimum fund reserve ratio of 1.35% by September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum fund reserve ratio to 1.35% from the former statutory minimum of 1.15%. As a result, the deposit insurance assessments to be paid by the Bank could increase. Any additional future premium increases or special assessments could have a material adverse effect on our business, financial condition, and results of operations.

Final CFPB regulations could restrict our ability to originate and sell mortgage loans.

The CFPB has issued a rule designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower’s ability to repay a mortgage. Loans that meet this “qualified mortgage” definition will be presumed to have complied with the new ability-to-repay standard. Under the CFPB’s rule, a “qualified mortgage” loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less “bona fide discount points” for prime loans);
- interest-only payments;
- negative-amortization; and
- terms longer than 30 years.

Also, to qualify as a “qualified mortgage,” a borrower’s total debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The CFPB’s rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive/and or time consuming to make these loans, which could limit our growth or profitability.

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

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. We outsource many of our major systems, such as certain data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience disruptions if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or disruption could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us, our financial condition, results of operations, cash flows and prospects.

We are exposed to risks related to cyber-security.

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

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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.

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

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

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

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

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

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 make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. If these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability and/or our reputation could be damaged. Either of these results may adversely impact demand for our products and services or otherwise have a harmful effect on our business and, in turn, on our financial condition, results of operations and prospects.

We 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, or FHLB, 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 or results of operations.

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

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

Our systems of internal operating controls may not be effective.

We establish and maintain systems of internal operational controls that provide us with critical information used to manage our business. These systems are subject to various inherent limitations, including cost, judgments used in decision-making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error and the risk of fraud. Moreover, controls may become inadequate because of changes in conditions 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 and, in turn, on our financial condition, results of operations and prospects, as well as how we are perceived by our customers, regulators and investors.

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

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources, higher lending limits and larger branch networks. Such competitors primarily include national and regional banks within the various markets we serve. We also face competition from many other types of financial institutions, including, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies, financial technology firms and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Increased competition among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies may adversely affect our ability to market our products and services. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic funds transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, some competitors may offer a broader range of products and services as well as better pricing for those products and services than we can.

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

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

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

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Our operations rely on certain external vendors.

We are reliant upon certain external vendors to provide products and services necessary to maintain our day-to-day operations. Failure of certain external vendors to perform in accordance with contractual arrangements could be disruptive to our operations and limit our ability to provide certain products and services demanded by our customers, which could have material adverse impact on our financial condition or results of operations.

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

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

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

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

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

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

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

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

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Risks Relating to Our Pending Acquisition of Cascade Bancorp

The success of the merger and integration of Cascade Bancorp will depend on a number of uncertain factors that could materially and adversely affect the financial condition and results of our operations and that of the combined company or prevent the combined company from realizing the anticipated benefits of the merger.

The success of the merger and the ability to realize the its anticipated benefits will depend on a number of factors, including:

- our ability to integrate the branches acquired from Cascade Bancorp into our current operations;
- our ability to limit the outflow of deposits held by customers of the acquired branches and to successfully retain and manage interest-earning assets acquired in the merger;
- our ability to control the incremental non-interest expense of the acquired branches in a manner that enables us to maintain a favorable overall efficiency ratio;
- our ability to retain and attract the appropriate personnel to staff the acquired branches; and
- our ability to earn acceptable levels of interest and non-interest income, including fee income, from the acquired branches.

Integrating the acquired branches will be an operation of substantial size and expense, and may be affected by general market and economic conditions or government actions affecting the financial industry generally. Integration efforts will also likely divert our management’s attention and resources. We may not be able to integrate the acquired branches successfully, and the integration process could result in the loss of key employees, the disruption of ongoing business, or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. We may also encounter unexpected difficulties or costs during the integration that could adversely affect our earnings and financial condition, perhaps materially. Additionally, the operation of the acquired branches may adversely affect our existing profitability, we may not be able to achieve results in the future similar to those achieved by the existing banking business or we may not be able to manage growth resulting from the merger effectively.

Failure to complete the merger could negatively impact our stock prices, future business and financial results.

There can be no assurance that our announced merger with Cascade Bancorp will be completed. If the merger is not completed, our ongoing business may be adversely affected and we will be subject to a number of risks, including the following:

- We will be required to pay certain costs relating to the merger, whether or not the merger is completed, such as legal, accounting, financial advisor, proxy solicitation and printing fees;
- Under the merger agreement, we are subject to certain restrictions on the conduct of business before completing the merger, which may adversely affect our ability to execute certain of our business strategies if the merger is terminated; and
- matters relating to the merger may require substantial commitments of time and resources by our management, which could otherwise have been devoted to other opportunities that may have been beneficial to us as an independent company.

In addition, if the merger is not completed, we may experience negative reactions from the financial markets and from customers and employees. We also could be subject to litigation related to any failure to complete the merger or to proceedings commenced by us against Cascade Bancorp seeking damages or to compel Cascade Bancorp to perform its obligations under the merger agreement. These factors and similar risks could have an adverse effect on our results of operation, business and stock price.

Our shareholders will have a reduced ownership and voting interest after the merger and will exercise less influence over the combined organization.

Our shareholders currently have the right to vote in the election of members for our board of directors and on various other matters affecting us. Upon the completion of the merger, our Class A common stockholders will have their ownership interests diluted by approximately 9.7% and voting interests diluted by approximately 1.2%; and, the holders of our Class B common stock will have their ownership interests diluted by approximately 10.4% and voting interests diluted by approximately 6.4%.

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Risks Relating to Our Common Stock

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

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

- prevailing market conditions;
- our historical performance and capital structure;
- estimates of our business potential and earnings prospects;
- an overall assessment of our management;
- 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 stock price is similarly impacted by the factors listed above.

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 these 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 may change.

Although we have historically paid dividends to our stockholders, we have no obligation to continue doing so and may change our dividend policy at any time without notice to our stockholders. Holders of our common stock are only entitled to receive such cash dividends as our board of directors 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.

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

Members of the Scott family control in excess of 77% of the voting power of our outstanding common stock. Due to their holdings of common stock, members of the Scott family are able to determine the outcome of virtually all matters submitted to stockholders for approval, including the election of directors, amendment of our articles of incorporation (except when a class vote is required by law), any merger or consolidation requiring common stockholder approval and the sale of all or substantially all of our assets. Accordingly, such holders have the ability to prevent change in control transactions as long as they maintain voting control of the company.

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In addition, because these holders have the ability to elect all of our directors they are able to control our policies and operations, including the appointment of management, future issuances of our common stock or other securities, the payments of dividends on our common stock and entering into extraordinary transactions, and their interests may not in all cases be aligned with the interests of all stockholders. The Scott family members have entered into a stockholder agreement giving family members a right of first refusal to purchase shares of Class B common stock that are intended to be sold or transferred, subject to certain exceptions, by other family members. This agreement may have the effect of continuing ownership of the Class B common stock and control within the Scott family. This concentrated control limits stockholders' ability to influence corporate matters. As a result, the market price of our Class A common stock could be adversely affected.

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

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

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

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

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

resolution addressing the nomination process.

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

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

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

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% interest. We lease approximately 102,609 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 79 locations in Montana, Wyoming and South Dakota, of which 13 properties are leased from independent third parties and 66 properties are owned by us. We believe each of our facilities is suitable and adequate to meet our current operational needs.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Description of Our Capital Stock

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

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

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

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

- 100,000 shares are designated as preferred stock.

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At December 31, 2016, we had issued and outstanding 21,613,885 shares of Class A common stock and 23,312,291 shares of Class B common stock. At December 31, 2016, we also had outstanding stock options to purchase an aggregate of 529,562 shares of our Class A common stock and 411,281 shares of our Class B common stock.

Members of the Scott family control in excess of 77% of the voting power of our outstanding common stock. The Scott family members have entered into a stockholder agreement giving family members a right of first refusal to purchase shares of Class B common stock that are intended to be sold or transferred, subject to certain exceptions, by other family members. This agreement may have the effect of continuing ownership of the Class B common stock and control of our Company within the Scott family.

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

Preferred Stock

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

Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

Quarter Ended	High	Low
March 31, 2015	$27.82	$23.90
June 30, 2015	28.79	26.83
September 30, 2015	28.50	25.68
December 31, 2015	30.64	26.84
March 31, 2016	28.92	24.92
June 30, 2016	29.55	26.44
September 30, 2016	32.56	26.89
December 31, 2016	43.10	30.70

As of December 31, 2016, we had 687 record shareholders, including the Wealth Management division of FIB as trustee for 888,665 shares of Class A common stock held on behalf of 744 individual participants in the Savings and Profit Sharing Plan for Employees of First Interstate BancSystem, Inc., or the Savings Plan. The Savings Plan Trustee votes the shares based on the instructions of each participant. In the event the participant does not provide the Savings Plan Trustee with instructions, the Savings Plan Trustee votes those shares in accordance with voting instructions received from a majority of the participants in the plan.

Dividends

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

Recent quarterly dividends follow:

Dividend Payment	Amount Per Share	Total Cash Dividends
First quarter 2015	$0.20	$9,114,216
Second quarter 2015	0.20	9,073,574
Third quarter 2015	0.20	9,071,305
Fourth quarter 2015	0.20	9,030,775

First quarter 2016	0.22	9,859,940
Second quarter 2016	0.22	9,847,205
Third quarter 2016	0.22	9,808,340
Fourth quarter 2016	0.22	9,838,816

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Dividend Restrictions

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

Sales of Unregistered Securities

There were no issuances of unregistered securities during the three months ended December 31, 2016.

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, 2016.

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 2016	—	$ —	—	24,123
November 2016	—	—	—	24,123
December 2016	17,254	42.55	—	24,123
Total	17,254	$ 42.55	—	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 2006 Equity Compensation Plan.

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Performance Graph

The performance graph below compares the cumulative total shareholder return on our Class A common stock with the cumulative total return on equity securities of companies included in the NASDAQ Composite Index, the NASDAQ Bank Index and the SNL U.S. Bank NASDAQ index, measured on the last trading day of each year shown. The NASDAQ Bank Index and the SNL U.S. Bank Nasdaq index are comparative peer indexes 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, 2011, and reinvestment of dividends on the date of payment without commissions. The plot points on the graph were provided by SNL Financial LC, Charlottesville, VA. The performance graph represents past performance, which may not be indicative of the future performance of our common stock.

Index	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
First Interstate BancSystem, Inc.	$100.00	$122.41	$229.16	$230.28	$247.82	$374.06
NASDAQ Composite	100.00	117.45	164.57	188.84	201.98	219.89
SNL U.S. Bank NASDAQ	100.00	119.19	168.21	176.48	192.08	265.02
NASDAQ Bank	100.00	118.69	168.21	176.48	192.08	265.02

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Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data with respect to our consolidated financial position as of December 31, 2016 and 2015, and the results of our operations for the fiscal years ended December 31, 2016, 2015 and 2014, has been derived from our audited consolidated financial statements included in Part IV, Item 15. This data should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and such consolidated financial statements, including the notes thereto. The selected consolidated financial data with respect to our consolidated financial position as of December 31, 2013, 2012 and 2011, and the results of our operations for the fiscal years ended December 31, 2012 and 2011, has been derived from our audited consolidated financial statements not included herein.

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

As of or for the year ended December 31,	2016	2015	2014	2013	2012
Selected Balance Sheet Data:					
Net loans	$5,402,330	$5,169,379	$4,823,243	$4,259,514	$4,123,401
Investment securities	2,124,468	2,057,505	2,287,110	2,151,543	2,203,481
Total assets	9,063,895	8,728,196	8,609,936	7,564,651	7,721,761
Deposits	7,376,110	7,088,937	7,006,212	6,133,750	6,240,411
Securities sold under repurchase agreements	537,556	510,635	502,250	457,437	505,785
Long-term debt	27,970	27,885	38,067	36,917	37,160
Preferred stock pending redemption (1)	—	—	—	—	50,000
Subordinated debentures held by subsidiary trusts	82,477	82,477	82,477	82,477	82,477
Preferred stockholders' equity (1)	—	—	—	—	—
Common stockholders' equity	982,593	950,493	908,924	801,581	751,186
Selected Income Statement Data:					
Interest income	$297,426	$282,423	$267,067	$257,662	$273,900
Interest expense	17,661	18,060	18,606	20,695	30,114
Net interest income	279,765	264,363	248,461	236,967	243,786
Provision for loan losses	9,991	6,822	(6,622)	(6,125)	40,750
Net interest income after provision for loan losses	269,774	257,541	255,083	243,092	203,036
Non-interest income	136,496	121,515	111,835	113,024	115,509
Non-interest expense	261,011	248,599	237,303	223,414	230,283
Income before income taxes	145,259	130,457	129,615	132,702	88,262
Income tax expense	49,623	43,662	45,214	46,566	30,038
Net income	95,636	86,795	84,401	86,136	58,224
Preferred stock dividends	—	—	—	—	3,300
Net income available to common shareholders	$95,636	$86,795	$84,401	$86,136	$54,924
Common Share Data:					
Earnings per share:					
Basic	$2.15	$1.92	$1.89	$1.98	$1.28
Diluted	2.13	1.90	1.87	1.96	1.27
Dividends per share	0.88	0.80	0.64	0.41	0.61
Book value per share (2)	21.87	20.92	19.85	18.15	17.35
Tangible book value per share (3)	16.91	16.19	15.07	13.89	12.97
Weighted average shares outstanding:					
Basic	44,511,774	45,184,091	44,615,060	43,566,681	42,965,987
Diluted	44,910,396	45,646,418	45,210,561	44,044,602	43,092,978

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

As of or for the year ended December 31,	2016	2015	2014	2013	2012
Financial Ratios:					
Return on average assets	1.10 %	1.02 %	1.06 %	1.16 %	0.79 %
Return on average common equity	9.93	9.37	9.86	11.05	7.46
Return on average tangible common equity (4)	12.81	12.23	12.88	14.59	10.07
Average stockholders’ equity to average assets	11.04	10.87	10.77	10.49	10.57
Yield on average earning assets	3.80	3.70	3.75	3.84	4.10
Cost of average interest bearing liabilities	0.30	0.31	0.34	0.40	0.58
Interest rate spread	3.50	3.39	3.41	3.44	3.52
Net interest margin (5)	3.57	3.46	3.49	3.54	3.66
Efficiency ratio (6)	62.70	64.42	65.86	63.83	64.09
Common stock dividend payout ratio (7)	40.93	41.65	33.83	20.71	47.66
Loan to deposit ratio	74.27	74.01	69.90	70.84	67.69
Asset Quality Ratios:					
Non-performing loans to total loans (8)	1.40 %	1.37 %	1.32 %	2.22 %	2.61 %
Non-performing assets to total loans and other real estate owned (OREO) (9)	1.58	1.49	1.59	2.57	3.35
Non-performing assets to total assets	0.96	0.90	0.91	1.48	1.85
Allowance for loan losses to total loans	1.39	1.46	1.52	1.96	2.38
Allowance for loan losses to non-performing loans	99.52	106.71	114.58	88.28	91.31
Net charge-offs to average loans	0.20	0.08	0.10	0.21	1.26
Capital Ratios:					
Tangible common equity to tangible assets (10)	8.60 %	8.64 %	8.22 %	8.32 %	7.46 %
Net tangible common equity to tangible assets (11)	9.28	9.35	8.94	9.14	8.26
Tier 1 common capital to total risk weighted assets (12)	12.65	12.69	13.08	13.31	11.94
Leverage ratio	10.11	10.12	9.61	10.08	8.81
Tier 1 risk-based capital	13.89	13.99	14.52	14.93	13.60
Total risk-based capital	15.13	15.36	16.15	16.75	15.59

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

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

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

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

the caption "—Non-GAAP Financial Measures" in this Part II, Item 6.

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

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

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

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

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

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(10) Tangible common equity to tangible assets is a non-GAAP financial measure that management uses to evaluate our capital adequacy. For purposes of computing tangible common equity to tangible assets, tangible common equity is calculated as common stockholders' equity less goodwill and other intangible assets (except mortgage servicing assets), and tangible assets is calculated as total assets less goodwill and other intangible assets (except mortgage servicing rights). See below our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "—Non-GAAP Financial Measures" in this Part II, Item 6.

(11) Net tangible common equity to tangible assets is a non-GAAP financial measure that management uses to evaluate our capital adequacy. For purposes of computing net tangible common equity to tangible assets, net tangible common equity is calculated as common stockholders' equity less goodwill (adjusted for associated deferred tax liability) and other intangible assets (except mortgage servicing assets), and tangible assets is calculated as total assets less goodwill and other intangible assets (except mortgage servicing rights). See below our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "—Non-GAAP Financial Measures" in this Part II, Item 6.

(12) For purposes of computing tier 1 common capital to total risk-weighted assets, tier 1 common capital excludes preferred stock and trust preferred securities.

Non-GAAP Financial Measures

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

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

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

As of December 31,	2016	2015	2014	2013	2012
Total common stockholders' equity (GAAP)	$982,593	$950,493	$908,924	$801,581	$751,186
Less goodwill and other intangible assets (excluding mortgage servicing rights)	222,468	215,119	218,870	188,214	189,637
Tangible common stockholders' equity (Non-GAAP)	760,125	735,374	690,054	613,367	561,549
Add deferred tax liability for deductible goodwill	60,499	60,499	60,499	60,499	60,499
Net tangible common stockholders' equity (Non-GAAP)	$820,624	$795,873	$750,553	$673,866	$622,048
Total Assets (GAAP)	$9,063,895	$8,728,196	$8,609,936	$7,564,651	$7,721,761
Less goodwill and other intangible assets (excluding mortgage servicing rights)	222,468	215,119	218,870	188,214	189,637
Tangible assets (Non-GAAP)	$8,841,427	$8,513,077	$8,391,066	$7,376,437	$7,532,124
Average Balances:					
Total common stockholders' equity (GAAP)	$963,530	$926,050	$855,862	$779,530	$735,984
Less goodwill and other intangible assets (excluding mortgage servicing rights)	216,726	216,494	200,740	188,954	190,381
Average tangible common stockholders' equity (Non-GAAP)	$746,804	$709,556	$655,122	$590,576	$545,603
Common shares outstanding	44,926,176	45,458,255	45,788,415	44,155,063	43,290,323
Net income available to common shareholders	$95,636	$86,795	$84,401	$86,136	$54,924
Book value per common share (GAAP)	$21.87	$20.92	$19.85	$18.15	$17.35
Tangible book value per common share (Non-GAAP)	16.92	16.19	15.07	13.89	12.97
Tangible common equity to tangible assets (Non-GAAP)	8.60 %	8.64 %	8.22 %	8.32 %	7.46 %
Net tangible common equity to tangible assets (Non-GAAP)	9.28	9.35	8.94	9.14	8.26
Return on average common tangible equity (Non-GAAP)	12.81	12.23	12.88	14.59	10.07

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

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

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

The following factors, among others, may cause actual results to differ materially from current expectations in the forward-looking statements, including those set forth in this report:

- declining business and economic conditions;
- adverse economic conditions affecting Montana, Wyoming and South Dakota;
- lending risk;
- changes in interest rates;
- credit losses;
- adequacy of the allowance for loan losses;
- declining oil and gas prices and declining demand for coal;
- additional regulatory requirements if our assets exceed $10 billion;
- failure to integrate or profitably operate acquired organizations;
- access to low-cost funding sources;
- impairment of goodwill;
- changes in accounting standards;
- dependence on the Company’s management team;
- ability to attract and retain qualified employees;
- governmental regulation and changes in regulatory, tax and accounting rules and interpretations;
- stringent capital requirements;
- future FDIC insurance premium increases;
- CFPB restrictions on our ability to originate and sell mortgage loans;
- failure of technology;
- cyber-security;
- unfavorable resolution of litigation;
- litigation pertaining to fiduciary responsibilities;
- inability to meet liquidity requirements;
- environmental remediation and other costs;
- ineffective internal operational controls;
- competition;
- reliance on external vendors;
- soundness of other financial institutions;
- failure to effectively implement technology-driven products and services;
- inability of our bank subsidiary to pay dividends;
- risks associated with introducing new lines of business, products or services;
- implementation of new lines of business or new product or service offerings;
- successful completion of the merger and integration of Cascade Bancorp;
- uninsured nature of any investment in Class A and Class B common stock;

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

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

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

Executive Overview

We are a financial and bank holding company headquartered in Billings, Montana. As of December 31, 2016, we had consolidated assets of $9.1 billion, deposits of $7.4 billion, loans of $5.5 billion and total stockholders’ equity of $983 million.
We currently operate 80 banking offices, including detached drive-up facilities, in 45 communities located in Montana, Wyoming and South Dakota. We also offer internet and mobile banking services. Through our wholly-owned subsidiary, FIB, we deliver a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities throughout our market areas. Our customers participate in a wide variety of industries, including energy, healthcare and professional services, education and governmental services, construction, mining, agriculture, retail and wholesale trade and tourism.

Our Business

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

Our loan portfolio consists of a mix of real estate, consumer, commercial, agricultural and other loans, including fixed and variable rate loans. Our real estate loans comprise commercial real estate, construction (including residential, commercial and land development loans), residential, agricultural and other real estate loans. Fluctuations in the loan portfolio are directly related to the economies of the communities we serve. While each loan originated generally must meet minimum underwriting standards established in our credit policies, lending officers are granted discretion within pre-approved limits in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area. We fund our loan portfolio primarily with the core deposits from our customers, generally without utilizing brokered deposits and with minimal reliance on wholesale funding sources. For additional information about our underwriting standards and loan approval process, see "Business—Lending Activities," included in Part I, Item 1 of this report.

Recent Trends and Developments

On January 12, 2017, the Company acquired for cash all right, title and interest in and to all First Interstate-related U.S. trademark registrations owned by Wells Fargo & Company (the "Trademarks"); all common law rights and goodwill associated with the Trademarks; and all First Interstate-related domain names, which will enable the Company to use the the Trademarks throughout the U.S.

On November 17, 2016, we entered into an agreement and plan of merger, the Agreement, to acquire all of the outstanding stock of Cascade Bancorp, parent company of Bank of the Cascades, an Oregon-based community bank with 50 banking offices across Oregon, Idaho and Washington. Under the terms of the Agreement, each outstanding share of Cascade Bancorp will convert into the right to receive 0.14864 shares of our Class A common stock and $1.91 in cash. Based on the closing price of the our Class A common stock on December 31, 2016, the merger consideration represents an aggregate purchase price of approximately $628 million. Upon completion of the merger, which is expected to close during third quarter 2017 subject to regulatory and shareholder approvals, we will become a regional community bank with over $12 billion in total assets with a geographic footprint that will span Montana, Wyoming, South Dakota, Idaho, Oregon and Washington.

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On April 6, 2016, our bank subsidiary entered into a stock purchase agreement to acquire 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 on August 12, 2016 for cash consideration of $34 million. As of the date of the acquisition, Flathead Bank had total assets of $254 million, loans of $83 million and deposits of $210 million. For additional information regarding the acquisition, “Notes to Consolidated Financial Statements—Acquisitions,” included in Part IV, Item 15 of this report.

Effective January 1, 2016, we elected to account for our loans held for sale using the fair value option. Under the fair value option, unrealized gains and losses on loans held for sale are included in mortgage banking revenues in our consolidated statements of income. Changes in the fair value of mortgage loans increased mortgage banking revenues by $760 thousand during 2016.

In prior periods, we recorded net gains or losses attributable to deferred compensation plan assets as other income, and the corresponding compensation expense or benefit related to these net gains or losses as employee benefits expense in our consolidated statements of income. However, because we pass all gains or losses on deferred compensation plan assets through to plan participants, these income and expense amounts offset and do not impact our consolidated net income. To eliminate fluctuations in other income and employee benefits expense caused by changes in the market values of deferred compensation plan assets, during second quarter 2016 we began recording these gains or losses in other income net of the directly offsetting employee compensation expense or benefit. All prior periods presented in this report have been revised to reflect this change.

On July 2, 2013, the Board of Governors of the Federal Reserve Bank issued a final rule implementing a revised regulatory capital framework for U.S. banks in accordance with the Basel III international accord. The revised regulatory capital framework, or Basel III, became effective for us on January 1, 2015. Basel III includes a more stringent definition of capital and introduces a new common equity tier 1, or CET1, capital requirement, sets forth a comprehensive methodology for calculating risk-weighted assets, introduces a conservation buffer and sets out minimum capital ratios and overall capital adequacy standards. Certain deductions and adjustments to regulatory capital phased in starting January 1, 2015 and will be fully implemented on January 1, 2018. The capital conservation buffer phased in beginning January 1, 2016 and will be fully implemented on January 1, 2019. As of December 31, 2015, we had capital levels that, in all cases, exceeded the well capitalized guidelines. For additional information regarding our capital levels, see "Capital Resources and Liquidity Management" included herein and “Notes to Consolidated Financial Statements—Regulatory Capital,” included in Part IV, Item 15 of this report.

Primary Factors Used in Evaluating Our Business

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

Results of Operations

Principal factors used in managing and evaluating our results of operations include return on average equity, net interest income, non-interest income, non-interest expense and net income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the volume and composition of interest earning assets and interest bearing liabilities. The most significant impact on our net interest income between periods is derived from the interaction of changes in the rates earned or paid on interest earning assets and interest bearing liabilities, which we refer to as interest rate spread. The volume of loans, investment securities and other interest earning assets, compared to the volume of interest bearing deposits and indebtedness, combined with the interest rate spread, produces changes in our net interest income between periods. Non-interest bearing sources of funds, such as demand deposits and stockholders' equity, also support earning assets.

The impact of free funding sources is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. We evaluate our net interest income on factors that include the yields on our loans and other earning assets, the costs of our deposits and other funding sources, the levels of our net interest spread and net interest margin.

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

We manage our non-interest expenses in consideration of growth opportunities and our community banking model that emphasizes customer service and responsiveness. We evaluate our non-interest expense on factors that include our non-interest expense relative to our average assets, our efficiency ratio and the trends of the individual categories of non-interest expense.

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

Financial Condition

Principal areas of focus in managing and evaluating our financial condition include liquidity, the diversification and quality of our loans, the adequacy of our allowance for loan losses, the diversification and terms of our deposits and other funding sources, the re-pricing characteristics and maturities of our assets and liabilities, including potential interest rate exposure and the adequacy of our capital levels. We seek to maintain sufficient levels of cash and investment securities to meet potential payment and funding obligations, and we evaluate our liquidity on factors that include the levels of cash and highly liquid assets relative to our liabilities, the quality and maturities of our investment securities, the ratio of loans to deposits and any reliance on brokered certificates of deposit or other wholesale funding sources.

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

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

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

Critical Accounting Estimates and Significant Accounting Policies

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

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

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Allowance for Loan Losses

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

We perform a quarterly assessment of the risks inherent in our loan portfolio, as well as a detailed review of each significant loan with identified weaknesses. Based on this analysis, we record a provision for loan losses in order to maintain the allowance for loan losses at appropriate levels. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of subjective measurements, including management's assessment of the internal risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends and the impact of current local, regional and national economic factors on the quality of the loan portfolio. Changes in these estimates and assumptions are possible and may have a material impact on our allowance, and therefore our consolidated financial statements or results of operations. The allowance for loan losses is maintained at an amount we believe is sufficient to provide for estimated losses inherent in our loan portfolio at each balance sheet date, and fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses. Management monitors qualitative and quantitative trends in the loan portfolio, including changes in the levels of past due, internally classified and non-performing loans. See "Notes to Consolidated Financial Statements — Summary of Significant Accounting Policies" for a description of the methodology used to determine the allowance for loan losses. A discussion of the factors driving changes in the amount of the allowance for loan losses is included herein under the heading "—Financial Condition—Allowance for Loan Losses." See also Part I, Item 1A, "Risk Factors—Risks Relating to the Market and Our Business."

Goodwill

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

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

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

Fair Values of Loans Acquired in Business Combinations

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

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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, 2016 to December 31, 2015 and the years ended December 31, 2015 to December 31, 2014.

Net Interest Income

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

The most significant impact on our net interest income between periods is derived from the interaction of changes in the volume of and rates earned or paid on interest earning assets and interest bearing liabilities. The volume of loans, investment securities and other interest earning assets, compared to the volume of interest bearing deposits and indebtedness, combined with the interest rate spread, produces changes in the net interest income between periods.

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

Average Balance Sheets, Yields and Rates
(Dollars in thousands)

	Year Ended December 31,								
	2016			2015			2014		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:									
Loans (1) (2)	$5,378,298	$261,681	4.87 %	$5,056,810	$248,015	4.90 %	$4,602,907	$233,273	5.07 %
Investment securities (2)	2,093,549	37,597	1.80	2,191,968	37,167	1.70	2,122,587	36,755	1.73
Federal funds sold	1,575	11	0.70	2,079	12	0.58	1,391	7	0.50
Interest bearing deposits in banks	478,909	2,589	0.54	508,314	1,537	0.30	506,067	1,334	0.26
Total interest earnings assets	7,952,331	301,878	3.80	7,759,171	286,731	3.70	7,232,952	271,369	3.75
Non-earning assets	772,064			762,535			715,846		
Total assets	$8,724,395			$8,521,706			$7,948,798		
Interest bearing liabilities:									
Demand deposits	$2,162,571	$2,182	0.10 %	$2,101,988	$2,105	0.10 %	$1,992,565	$2,094	0.11 %
Savings deposits	2,037,351	2,677	0.13	1,908,091	2,541	0.13	1,723,073	2,444	0.14
Time deposits	1,094,190	7,803	0.71	1,171,952	8,461	0.72	1,198,053	9,241	0.77
Repurchase agreements	481,014	429	0.09	456,255	231	0.05	454,265	237	0.05
Other borrowed funds (3)	8	—	—	6	—	—	8	—	—
Long-term debt	28,219	1,815	6.43	44,654	2,300	5.15	37,442	2,016	5.38
Subordinated debentures held by subsidiary trusts	82,477	2,755	3.34	82,477	2,422	2.94	88,304	2,574	2.91
Total interest bearing liabilities	5,885,830	17,661	0.30	5,765,423	18,060	0.31	5,493,710	18,606	0.34
Non-interest bearing deposits	1,812,589			1,774,696			1,543,079		
Other non-interest bearing liabilities	62,446			55,537			56,147		
Stockholders' equity	963,530			926,050			855,862		
Total liabilities and stockholders' equity	$8,724,395			$8,521,706			$7,948,798		
Net FTE interest income		$284,217			$268,671			$252,763	
Less FTE adjustments (2)		(4,452)			(4,308)			(4,302)	
Net interest income from consolidated statements of income		$279,765			$264,363			$248,461	

Interest rate spread	3.50 %	3.39 %	3.41 %
Net FTE interest margin (4)	3.57 %	3.46 %	3.49 %
Cost of funds, including non-interest bearing demand deposits (5)	0.23 %	0.24 %	0.26 %

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

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

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

(4) 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.

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

Net FTE interest income increased $15.5 million to $284.2 million during 2016, as compared to $268.7 million in 2015, primarily due to growth in average loans combined with increases in yields earned on interest earning assets and a shift in the mix of interest earning assets from lower-yielding cash deposits in banks and investment securities into higher-yielding loans. Also contributing to the increase in net FTE interest income during 2016, as compared to 2015, was a shift in the mix of deposits away from higher costing time deposits into lower costing demand and savings deposits. Interest accretion related

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to the fair valuation of acquired loans contributed $6.3 million of interest income during 2016. Net FTE interest income was also positively impacted by recoveries of previously charged-off interest of $2.6 million in 2016, as compared to $2.1 million in 2015. The Company's net interest margin ratio increased 11 basis points to 3.57% during 2016, as compared to 3.46% in 2015. Exclusive of interest accretion related to acquired loans and the impact of recoveries of charged-off interest, the Company's net interest margin ratio was 3.46% during 2016, as compared to 3.35% during 2015.

During 2015, deposit growth combined with corresponding increases in interest earning assets and a 3 basis point reduction in our funding costs resulted in an increase in our net interest income on an FTE basis. Our FTE net interest income increased $15.9 million, or 6.3%, to $268.7 million in 2015, compared to $252.8 million in 2014. Interest accretion related to the fair valuation of acquired loans contributed $5.4 million of interest income during 2015. Net FTE interest income was also positively impacted by recoveries of previously charged-off interest of $2.1 million in 2015, as compared to $3.6 million in 2014. Despite increases in our net FTE interest income, our net interest margin ratio decreased 3 basis points to 3.46% in 2015, compared to 3.49% in 2014. Declines in yields earned on the Company's loan and investment portfolios were partially offset by increases in average interest earning assets, primarily loans and investment securities, and reductions in funding costs. Exclusive of interest accretion related to acquired loans and the impact of recoveries of charged-off interest, our net interest margin ratio was 3.35% during 2015 and 3.41% during 2014.

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

Analysis of Interest Changes Due To Volume and Rates
(Dollars in thousands)

	Year Ended December 31, 2016 compared with December 31, 2015			Year Ended December 31, 2015 compared with December 31, 2014			Year Ended December 31, 2014 compared with December 31, 2013		
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
Interest earning assets:									
Loans (1)	$15,767	$(2,101)	$13,666	$23,004	$(8,262)	$14,742	$16,689	$(5,866)	$10,823
Investment Securities (1)	(1,669)	2,099	430	1,201	(789)	412	(520)	(1,420)	(1,940)
Federal funds sold	—	(1)	(1)	6	197	203	(9)	(2)	(11)
Interest bearing deposits in banks	(89)	1,141	1,052	—	5	5	290	52	342
Total change	14,009	1,138	15,147	24,211	(8,849)	15,362	16,450	(7,236)	9,214
Interest bearing liabilities:									
Demand deposits	61	16	77	115	(104)	11	270	(139)	131
Savings deposits	172	(36)	136	262	(165)	97	245	(246)	(1)
Time deposits	(561)	(97)	(658)	(201)	(579)	(780)	(805)	(1,346)	(2,151)
Repurchase agreements	13	185	198	1	(7)	(6)	(2)	(55)	(57)
Long-term debt	(847)	362	(485)	388	(104)	284	18	62	80
Preferred stock pending redemption	—	—	—	—	—	—	(159)	—	(159)
Subordinated debentures held by subsidiary trusts	—	333	333	(170)	18	(152)	177	(109)	68
Total change	(1,162)	763	(399)	395	(941)	(546)	(256)	(1,833)	(2,089)

Increase (decrease) in FTE net interest income (1)	$15,171	$375	$15,546	$23,816	$(7,908)	$15,908	$16,706	$(5,403)	$11,303

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

Provision for Loan Losses

The provision for loan losses supports the allowance for loan losses known and inherent in the loan portfolio at each balance sheet date. We perform a quarterly assessment of the risks inherent in our loan portfolio, as well as a detailed review of each significant loan with identified weaknesses. Based on this analysis, we record a provision for loan losses in order to maintain the allowance for loan losses at appropriate levels. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of

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the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. Fluctuations in the provision for loan losses result from management’s assessment of the adequacy of the allowance for loan losses. Ultimate loan losses may vary from current estimates. For additional information concerning the provision for loan losses, see “—Critical Accounting Estimates and Significant Accounting Policies” included herein.

Fluctuations in the provision for loan losses reflect management's estimate of possible loan losses based upon evaluation of the borrowers' ability to repay, collateral value underlying loans, loan loss trends and estimated effects of current economic conditions on our loan portfolio. During 2016, we recorded a provision for loan losses of $10.0 million, as compared to $6.8 million in 2015. The increase in provision for loan 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.

During second quarter 2016, we performed an in-depth review of the qualitative factors used in determining the appropriate level of the allowance for loan losses utilizing our loss experience subsequent to the financial crisis. This review resulted in the adjustment of certain qualitative factors. The adjustment of qualitative factors combined with the management's assessment of losses on specific loans with identified weaknesses did not result in a material impact to the overall level of our allowance for loan losses. For information regarding our non-performing loans, see “Non-Performing Assets” included herein. For information regarding our allowance for losses and the second quarter 2016 adjustment of certain qualitative factors, see "Financial Condition - Allowance for Loan Losses" included herein.

During 2015, we recorded a provision for loan losses of $6.8 million, as compared to a reversal of provision for loan losses of $6.6 million in 2014. The provision for loans losses recorded in 2015 was attributable to increases in specific reserves on impaired loans and the application of historical loan loss rates to loan growth. During 2014, reductions in specific reserves on impaired loans and lower general reserves reflective of continued improvement in economic conditions in our market areas, combined with improvement in loss history trends used to estimate required reserves and decreases in the level of criticized real estate and construction loans, which typically require higher reserves based on loss history, resulted in a $6.6 million reversal of provision for loan losses. For additional information concerning non-performing assets, see “—Financial Condition—Non-Performing Assets” herein.

Non-interest Income

Our principal sources of non-interest income include mortgage banking revenues; payment services revenues; wealth management revenues; service charges on deposit accounts; and, other service charges, commissions and fees. Non-interest income increased $15.0 million, or 12.3%, to $136.5 million in 2016, as compared to $121.5 million in 2015, and $9.7 million, or 8.7%, to $121.5 million in 2015 as compared to $111.8 million in 2014. Significant components of these fluctuations are discussed below.

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 increased $7.2 million, or 24.2%, to $37.2 million in 2016, as compared to $30.0 million in 2015. Mortgage loan production was relatively flat in 2016, as compared to 2015, with most of the increase a result of gains on loan sale margins. Our margin on loan sales increased by approximately 40 basis points beginning in the second quarter of 2016, which contributed to year-over-year growth in revenues. In addition, effective January 1, 2016, we elected to carry our loans held for sale at fair value. Changes in the fair value of mortgage loans increased mortgage banking revenues by $760 thousand in 2016. These increases were partially offset by a $410 thousand gain on the sale of $10.6 million of seasoned portfolio loans recorded during second quarter 2015. Loans originated for home purchases accounted for approximately 58% of 2016 loan production, as compared to approximately 66% in 2015, and 75% in 2014.

Mortgage banking revenues increased $6.0 million, or 25.2%, to $30.0 million during 2015, as compared to $23.9 million during 2014, primarily due to higher volume. Our 2015 mortgage loan production volume increased 25% as compared to 2014.

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Payment services revenues consist of interchange fees paid by merchants for processing electronic payment transactions and ATM service fees. Payment services revenues increased $1.6 million, or 5.0%, to $34.4 million in 2016, as compared to $32.8 million for the same period in 2015, and increased $2.1 million, or 6.7%, to $32.8 million in 2015, as compared to $30.7 million in 2014. These increases were attributable to additional interchange income due to higher credit card transaction volumes each year, primarily the result of our business credit card initiative.

Service charges on deposit accounts increased $1.4 million, or 8.2%, to $18.4 million in 2016, as compared to $17.0 million in 2015, primarily due to increases in overdraft charges on consumer accounts. Management attributes this increase to a focused effort on educating depositors on the benefits of overdraft protection for one-time debit and ATM card transactions. As of December 31, 2016, approximately 8% of our depositors have opted for overdraft protection. Service charges on deposit accounts increased $464 thousand, or 2.8%, to $17.0 million in 2015, as compared to $16.6 million in 2014.

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 $1.1 million, or 10.6%, to $11.5 million in 2016, as compared to $10.4 million in 2015, primarily due to increases in mortgage loan servicing fee income, the result of an increase in the number of loans serviced, and additional fees earned on derivative interest rate swap contracts. Other service charges, commissions and fees increased $357 thousand, or 3.6%, to $10.4 million in 2015 as compared to $10.0 million in 2014, primarily due to increases in mortgage loan servicing fee income resulting from an increase in the number of loans serviced.

Other income primarily includes company-owned life insurance revenues, check printing income, agency stock dividends and gains on sales of miscellaneous assets. Other income decreased $1.3 million, or 11.4%, to $10.0 million in 2016, as compared to $11.3 million in 2015. During 2015, other income included a one-time gain of $863 thousand on the sale of land and the reversal of a $1.0 million expense accrual due to final settlement of secondary investor claims assumed as part of the Mountain West Financial Corp, or MWFC, acquisition in 2014.

Other income decreased $216 thousand, or 1.9%, to $11.3 million in 2015, as compared to $11.5 million in 2014. One-time gains of $863 thousand on the sale of land and the reversal of a $1.0 million expense accrual due to final settlement of secondary investor claims discussed above were offset by by significant one-time other income items recorded in 2014. During 2014, other income included one-time net gains of $1.2 million related to the sale of two FIB bank buildings and insurance death benefits of $921 thousand.

During 2016, we recorded non-recurring litigation recoveries of $4.2 million related to a lender liability lawsuit originally settled in 2015. For additional information regarding the lawsuit or the non-recurring litigation recovery, see “Notes to Consolidated Financial Statements—Commitments and Contingencies,” included in Part IV, Item 15 of this report.

Non-interest Expense

Non-interest expense increased $12.4 million, or 5.0%, to $261.0 million in 2016, as compared to $248.6 million in 2015, and increased $11.3 million, or 4.8%, to $248.6 million in 2015, as compared to $237.3 million in 2014. Non-interest expense for 2016, 2015 and 2014 includes $2.8 million, $5.8 million and $8.0 million, respectively, of acquisition and loss contingency expenses. Exclusive of these acquisition and loss contingency expenses, non-interest expense increased $15.4 million, or 6.3%, to $258.2 million in 2016, as compared to $242.8 million in 2015, and $13.5 million, or 5.9%, to $242.8 million in 2015 as compared to $229.3 million 2014. Significant components of these increases are discussed in more detail below.

Salaries and wages expense increased $7.2 million, or 7.1%, to $108.7 million in 2016, as compared to $101.5 million in 2015. Approximately 47% of this increase was due to higher incentive bonus accruals reflective of our 2016 performance against our 2016 performance targets. The remaining increase was primarily due to inflationary wage increases, one-time separation and special bonus expenses recorded during the first quarter of 2016 and increased personnel costs associated with the Flathead acquisition in August 2016 and the Absarokee acquisition in July 2015.

Higher incentive compensation during 2016, as compared to 2015, was the result of our improved performance against pre-determined performance metrics. During 2016, we achieved pre-set performance metrics established by our board of directors that resulted in incentive compensation funding at 100% of targeted amounts. During 2015, our performance against established performance metrics resulted in incentive compensation funding at approximately 70% of targeted amounts.

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

Employee benefits expense increased $3.9 million, or 12.4%, to $35.2 million in 2016, as compared to $31.3 million in 2015. Approximately 50% of the increase was due to due to higher profit sharing accruals. During 2016, our performance supported profit sharing funding at 2.34% of our 2016 net income, as compared to 1.50% of net income in 2015. Also contributing to the increase in employee benefits expense in 2016, as compared to 2015, were increases in stock based compensation expense and additional benefits costs resulting from the Flathead Bank acquisition in August 2016 and the Absarokee acquisition in July 2015. Partially offsetting these increases was a decrease of $267 thousand in net periodic benefit costs related to our an amendment to our post-retirement healthcare plan. For additional information regarding the amendment of our post-retirement healthcare plan, see “Notes to Consolidated Financial Statements—Employee Benefit Plans—Post-Retirement Healthcare Plan,” included in Part IV, Item 15 of this report.

Employee benefits increased $760 thousand, or 2.5%, to $31.3 million in 2015, as compared to $30.6 million in 2014, primarily due to the increases in group health insurance expense reflective of higher claims experience in 2015 and increased benefits costs resulting from the MWFC acquisition in July 2014 and the Absarokee acquisition in July 2015.

Furniture and equipment expense decreased $5.9 million or 38.3%, to $9.6 million in 2016, as compared to $15.5 million in 2015. Effective January 1, 2016, we began capturing certain software costs separately from equipment costs, resulting in decreases in furniture and equipment expense and corresponding increases in outsourced technology expenses.

Furniture and equipment expense increased $1.7 million, or 12.4%, to $15.5 million in 2015, as compared to $13.8 million in 2014, primarily due to costs associated with the implementation of new software systems placed into service during the last half of 2014, the continued upgrade of systems during 2015 and increased maintenance costs resulting from the MWFC acquisition in July 2014 and the Absarokee acquisition in July 2015.

Outsourced technology services expense increased $10.4 million or 103.0%, to $20.5 million in 2016, as compared to $10.1 million in 2015. Approximately $5.9 million of the 2016 increase was the result of the classification of certain software costs as outsourced technology services expenses in the current year versus classification as furniture and equipment expense in the prior year. The remaining increase in 2016, as compared to 2015, was primarily due to the continued enhancement of our technology systems and processes to improve scalability and support our future growth.

Outsourced technology services expense increased $701 thousand, or 7.4%, to $10.1 million in 2015, as compared to $9.4 million in 2014. This increase was primarily due to the enhancement of our technology systems and processes to improve scalability and support our future growth.

OREO expense is recorded net of OREO income. Variations in net OREO expense between periods are primarily due to fluctuations in write-downs of the estimated fair value of properties, net gains and losses recorded on the sale of properties and carrying costs and/or operating expenses and income. Net OREO income decreased $1.4 million, or 97.0%, to $44 thousand in 2016, as compared to $1.5 million in 2015, primarily due to lower net gains on the sale of OREO properties and lower net income from income-producing OREO properties. During 2016, we recorded net gains on the sale of OREO of $925 thousand, write-downs in the fair value of OREO properties of $603 thousand and net OREO income of $278 thousand. This compares to net gains on the sale of OREO of $3.0 million, write-downs in the fair value of OREO properties of $207 thousand and net OREO income of $1.3 million in 2015.

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

Professional fees decreased $1.5 million, or 22.7%, to $5.0 million during in 2016, as compared to $6.5 million in 2015, and increased $1.6 million, or 32.3%, to $6.5 million in 2015, as compared to $4.9 million in 2014. During 2015, we incurred professional fees in conjunction with identifying and executing strategies for revenue enhancement and changing our wealth management data platform.

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Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. Mortgage servicing rights amortization expense increased $523 thousand, or 21.5%, to $3.0 million in 2016, as compared to $2.4 million in 2015, and increased $73 thousand, or 3.1%, to $2.4 million in 2015, as compared to $2.4 million in 2014, primarily due to higher volumes of loans serviced.

Core deposit intangibles represent the intangible value of depositor relationships resulting from deposit liabilities assumed and are amortized based on the estimated useful lives of the related deposits. Core deposit intangibles amortization expense increased $39 thousand or 1.2%, to $3.4 million in 2016, as compared to $3.4 million in 2015, and increased $1.1 million, or 50.5%, to $3.4 million in 2015, as compared to $2.3 million in 2014, due to additional amortization of core deposit intangibles recorded in conjunction with recent acquisitions. We acquired core deposit intangibles of $2.5 million in conjunction with our acquisition of Flathead in August 2016, $695 thousand in conjunction with our acquisition of Absarokee in July 2015 and $11.0 million in conjunction with our acquisition of MWFC in July 2014. 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 decreased $311 thousand, or less than 1.0%, to $50.6 million in 2016, as compared to $50.9 million in 2015. Increases in other expense due to the additional operating expenses resulting from the Flathead Bank acquisition in August 2016 and the Absarokee acquisition in July 2015, were partially offset by one-time expenses of $806 thousand associated with the write-down of the fair values of two vacated bank buildings held for sale and a one-time contract termination fee of $867 thousand recorded in 2015. Also contributing to the decrease in other expenses in 2016, as compared to 2015, was a reduction of $697 thousand in fraud losses.

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

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

During 2016, 2015 and 2014, we recorded acquisition expenses of $2.8 million, $795 thousand and $4.0 million, respectively. Acquisition expenses primarily include legal and professional fees, 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.

Income Tax Expense

Our effective federal tax rate was 29.7% for the year ended December 31, 2016, 29.0% for the year ended December 31, 2015 and 30.7% for the year ended December 31, 2014. Fluctuations in effective federal income tax rates are primarily due to the timing of of federal tax credits resulting from our participation in the New Markets Tax Credits

Program. For additional information about our participation in the New Markets Tax Credits Program, see “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies,” included in Part IV, Item 15 of this report.

State income tax applies primarily to pretax earnings generated within Montana and South Dakota. Our effective state tax rate was 4.4% for the year ended December 31, 2016, 4.5% for the year ended December 31, 2015 and 4.2% for the year ended December 31, 2014.

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Net Income

Net income was $95.6 million, or $2.13 per diluted share, in 2016, compared to $86.8 million, or $1.90 per diluted share, in 2015 and $84.4 million, or $1.87 per diluted share, in 2014.

Summary of Quarterly Results

The following tables present unaudited quarterly results of operations for the fiscal years ended December 31, 2016 and 2015.
Quarterly Results
(Dollars in thousands except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Year Ended December 31, 2016:					
Interest income	$72,380	$71,959	$74,935	$78,152	$297,426
Interest expense	4,430	4,326	4,354	4,551	17,661
Net interest income	67,950	67,633	70,581	73,601	279,765
Provision for loan losses	4,000	2,550	2,363	1,078	9,991
Net interest income after provision for loan losses	63,950	65,083	68,218	72,523	269,774
Non-interest income(1)	28,636	37,881	35,161	34,818	136,496
Non-interest expense(1)	62,255	63,767	65,403	69,586	261,011
Income before income taxes	30,331	39,197	37,976	37,755	145,259
Income tax expense	10,207	13,643	12,783	12,990	49,623
Net income	$20,124	$25,554	$25,193	$24,765	$95,636
Basic earnings per common share	$0.45	$0.58	$0.57	$0.56	$2.15
Diluted earnings per common share	0.45	0.57	0.56	0.55	2.13
Dividends paid per common share	0.22	0.22	0.22	0.22	0.88

(1) To improve comparability between periods presented above, we have included the standard costs of originating residential mortgage loans sold to secondary investors in salaries and wages expense, rather than as an offset to mortgage banking revenues. This reclassification resulted in an increase in mortgage banking revenues for each of the first three quarters of 2016 and an offsetting increase in salaries and wages expense during the same periods. This reclassification had no impact on previously reported net income.

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Quarterly Results
(Dollars in thousands except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Year Ended December 31, 2015:					
Interest income	$68,792	$69,718	$70,780	$73,133	$282,423
Interest expense	4,467	4,430	4,450	4,713	18,060
Net interest income	64,325	65,288	66,330	68,420	264,363
Provision for loan losses	1,095	1,340	1,098	3,289	6,822
Net interest income after provision for loan losses	63,230	63,948	65,232	65,131	257,541
Non-interest income	27,918	31,763	31,178	30,656	121,515
Non-interest expense	59,728	61,971	66,198	60,702	248,599
Income before income taxes	31,420	33,740	30,212	35,085	130,457
Income tax expense	10,440	11,518	10,050	11,654	43,662
Net income	$20,980	$22,222	$20,162	$23,431	$86,795
Basic earnings per common share	$0.46	$0.49	$0.45	$0.52	$1.92
Diluted earnings per common share	0.46	0.49	0.44	0.51	1.90
Dividends paid per common share	0.20	0.20	0.20	0.20	0.80

Financial Condition

Total assets increased $336 million, or 3.8%, to $9,064 million as of December 31, 2016, from $8,728 million as of December 31, 2015, with $254 million of the increase attributable to the Flathead 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 $118 million, or 1.4%, to $8,728 million as of December 31, 2015, from $8,610 million as of December 31, 2014, with $75 million of the increase attributable to the Absarokee acquisition. During 2015, deposit growth combined with proceeds from maturities and paydowns of investment securities were used to fund loan growth.

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 $232 million, or 4.4%, to $5,479 million as of December 31, 2016, from $5,246 million as of December 31, 2015. Approximately $83 million of this increase was attributable to the acquisition of Flathead Bank in August 2016. Exclusive of the Flathead Bank acquisition, total loans grew organically $149 million, or 2.8%, with the most notable growth occurring in construction and consumer loans. These increases were partially offset by declines in residential real estate and agricultural loans. Total loans increased $349 million, or 7.1%, to $5,246 million as of December 31, 2015, from $4,897 million as of December 31, 2014, with all major categories of loans, except agricultural real estate loans, showing growth. Approximately $37 million of the increase in total loans in 2015, as compared to 2014, was attributable to the Absarokee acquisition.

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

	As of December 31,									
	2016	Percent	2015	Percent	2014	Percent	2013	Percent	2012	Percent
Loans										
Real estate:										
Commercial	$1,834,445	33.5 %	$1,793,258	34.2 %	$1,639,422	33.6 %	$1,449,174	33.3 %	$1,497,272	35.6 %
Construction	481,997	8.8	430,719	8.2	418,269	8.5	351,635	8.1	334,529	7.9
Residential	1,027,393	18.8	1,032,851	19.7	999,903	20.4	867,912	20.0	708,339	16.8
Agricultural	170,248	3.1	156,234	3.0	167,659	3.4	173,534	4.0	177,244	4.2
Consumer	970,266	17.7	844,353	16.1	762,471	15.6	671,587	15.5	636,794	15.1
Commercial	797,942	14.6	792,416	15.1	740,073	15.1	676,544	15.6	688,753	16.3
Agricultural	132,858	2.4	142,151	2.7	124,859	2.5	111,872	2.6	113,627	2.8
Other loans	1,601	—	1,339	—	3,959	0.1	1,734	—	912	—
Mortgage loans held for sale	61,794	1.1	52,875	1.0	40,828	0.8	40,861	0.9	66,442	1.3
Total loans	5,478,544	100.0%	5,246,196	100.0%	4,897,443	100.0%	4,344,853	100.0%	4,223,912	100.0%
Less allowance for loan losses	76,214		76,817		74,200		85,339		100,511	
Net loans	$5,402,330		$5,169,379		$4,823,243		$4,259,514		$4,123,401	
Ratio of allowance to total loans	1.39 %		1.46 %		1.52 %		1.96 %		2.38 %	

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 51% of our commercial real estate loans were owner occupied as of December 31, 2016 and 2015. Commercial real estate loans increased $41 million, or 2.3%, to $1,834 million as of December 31, 2016, from $1,793 million as of December 31, 2015, with approximately 65% of the increase attributable to the Flathead acquisition. Management attributes organic growth in commercial real estate loans to continued business expansion in within our market areas, particularly in the Billings, Rapid City, Gallatin Valley and Sheridan markets.

Commercial real estate loans increased $154 million, or 9.4%, to $1,793 million as of December 31, 2015, from $1,639 million as of December 31, 2014, with approximately $12 million of the increase attributable to the Absarokee acquisition. Management attributes the remaining organic growth to continuing business expansion in our market areas and the movement of completed commercial construction projects from construction loans to permanent financing.

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, 2016, our construction loan portfolio was divided among the following categories: approximately $148 million, or 31%, residential construction; approximately $126 million, or 26%, commercial construction; and, approximately $209 million, or 43%, land acquisition and development. This compares to approximately $112 million, or 26%, residential construction; approximately $95 million, or 22%, commercial construction; and, approximately $224 million, or 52%, land acquisition and development as of December 31, 2015.

Construction loans increased $51 million, or 11.9%, to $482 million as of December 31, 2016, from $431 million as of December 31, 2015, with approximately $13 million of the increase attributable to the Flathead Bank acquisition. Exclusive of acquired loans, construction loans grew organically $38 million, or 9.0%, due to organic growth in commercial and residential construction loans. Construction loans grew organically $12 million, or 3.0%, to $431 million as of December 31, 2015, from $418 million as of December 31, 2014. Management attributes organic growth in construction loans to continuing increased housing demand in our market areas during 2016 and 2015.

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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 $321 million and $299 million as of December 31, 2016 and December 31, 2015, respectively. Residential real estate loans decreased $5 million, or less than 1.0%, to $1,027 million as of December 31, 2016, from $1,033 million as of December 31, 2015. Exclusive of residential real estate loans acquired in the Flathead acquisition, residential real estate loans decreased $26 million, or 2.5%, from December 31, 2015. During 2016, we sold most of our residential real estate loan production to secondary investors.

Residential real estate loans increased $33 million, or 3.3%, to $1,033 million as of December 31, 2015, from $1,000 million as of December 31, 2014, primarily due to continued increased housing demand in our market areas combined with retention of residential loans in our portfolio.

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 77% and 74% of our consumer loans as of December 31, 2016 and 2015, respectively, were indirect consumer loans.

Consumer loans increased $126 million, or 14.9%, to $970 million as of December 31, 2016, from $844 million as of December 31, 2015, and $82 million, or 10.7%, to $844 million as of December 31, 2015, from $762 million as of December 31, 2014, primarily due to organic growth in indirect consumer loans. Organic growth in indirect consumer loans in 2016 and 2015 is attributable to increases in loan transaction volumes within the Company's existing dealer network.

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

Commercial loans increased $6 million, or less than 1.0%, to $798 million as of December 31, 2016, from $792 million as of December 31, 2015. Exclusive of the Flathead acquisition, commercial loans decreased $3 million primarily due to the movement of loans out of the portfolio through pay-off, charge-off or foreclosure. Commercial loans increased $52 million, or 7.1%, to $792 million as of December 31, 2015, from $740 million as of December 31, 2014, due to business expansion in certain of our market areas during 2015.

Agricultural Loans. Our agricultural loans generally consist of short and medium-term loans and lines of credit that are primarily used for crops, livestock, equipment and general operations. Agricultural loans are ordinarily secured by assets such as livestock or equipment and are repaid from the operations of the farm or ranch. Agricultural loans generally have maturities of five years or less, with operating lines for one production season. Agricultural loans decreased $9 million, or 6.5%, to $133 million as of December 31, 2016, from $142 million as of December 31, 2015. Exclusive of agricultural loans acquired in the Flathead acquisition, agricultural loans decreased $15 million, or 10.7%, primarily due the early repayment of loans. Agricultural loans increased $17 million, or 13.8%, to $142 million as of December 31, 2015, from $125 million as of December 31, 2014, with approximately $7 million of the increase attributable to the Absarokee acquisition.

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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, 2016:
Maturities and Interest Rate Sensitivities
(Dollars in thousands)

	Within One Year	One Year to Five Years	After Five Years	Total
Real estate	$1,087,989	$1,470,685	$955,408	$3,514,082
Consumer	297,799	575,689	96,779	970,267
Commercial	413,525	273,927	110,490	797,942
Agricultural	99,028	29,052	4,778	132,858
Other	1,601	—	—	1,601
Mortgage loans held for sale	61,794	—	—	61,794
Total loans	$1,961,736	$2,349,353	$1,167,455	$5,478,544
Loans at fixed interest rates	$1,192,671	$1,510,794	$296,280	$2,999,745
Loans at variable interest rates	769,065	838,559	798,382	2,406,006
Non-accrual loans	—	—	72,793	72,793
Total loans	$1,961,736	$2,349,353	$1,167,455	$5,478,544

Non-Performing Assets

Non-performing assets include non-performing loans and OREO. The following table sets forth information regarding non-performing assets as of the dates indicated:
Non-Performing Assets and Troubled Debt Restructurings
(Dollars in thousands)

As of December 31,	2016	2015	2014	2013	2012
Non-performing loans:					
Non-accrual loans	$72,793	$66,385	$62,182	$94,439	$107,799
Accruing loans past due 90 days or more	3,789	5,602	2,576	2,232	2,277
Total non-performing loans	76,582	71,987	64,758	96,671	110,076
OREO	10,019	6,254	13,554	15,504	32,571
Total non-performing assets	$86,601	$78,241	$78,312	$112,175	$142,647
Troubled debt restructurings not included above (1)	$22,343	$15,419	$20,952	$21,780	$31,932
Non-performing loans to total loans (2)	1.40 %	1.37 %	1.32 %	2.22 %	2.61 %
Non-performing assets to total loans and OREO (3)	1.58	1.49	1.59	2.57	3.35
Non-performing assets to total assets (4)	0.96	0.90	0.91	1.48	1.85
Allowance for loan losses to non-performing loans (5)	99.52	106.71	114.58	88.28	91.31

(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 1.81%, 1.67%, 1.75%, 2.73% and 3.36% as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

(3) Including accruing troubled debt restructurings described in footnote 1, the ratio of non-performing assets to total loans and OREO would be 1.98%, 1.78%, 2.02%, 3.07% and 4.10% as of December 31, 2016, 2015, 2014, 2013

and 2012, respectively.

(4) Including accruing troubled debt restructurings described in footnote 1, the ratio of non-performing assets to total assets would be 1.20%, 1.07%, 1.15%, 1.77% and 2.26% as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

(5) Including accruing troubled debt restructurings described in footnote 1, the ratio of allowance for loan losses to non-performing loans would be 77.04%, 87.89%, 86.57%, 72.05% and 70.78% as of December 31, 2016, 2015, 2014, 2013, 2012, respectively.

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Non-performing loans. Non-performing loans include non-accrual loans and loans contractually past due 90 days or more and still accruing interest. Impaired loans include all loans risk rated doubtful, loans placed on non-accrual status and loans renegotiated in troubled debt restructurings, with the exception of consumer loans. We monitor and evaluate collateral values on impaired loans quarterly. Appraisals are required on all impaired loans every 18-24 months, or sooner as conditions necessitate. We monitor real estate values by market for our larger market areas. Based on trends in real estate values, adjustments may be made to the appraised value based on time elapsed between the appraisal date and the impairment analysis or a new appraisal may be ordered. Appraised values in our smaller market areas may be adjusted based on trends identified through discussions with local realtors and appraisers. Appraisals are also adjusted for selling costs. The adjusted appraised value is then compared to the loan balance and any resulting shortfall is recorded in the allowance for loan losses as a specific valuation allowance. Overall increases in specific valuation allowances will result in higher provisions for loan losses. Provisions for loan losses are also impacted by changes in the historical or general valuation elements of the allowance for loan losses as well.

Total non-performing loans increased $5 million, or 6.4%, to $77 million as of December 31, 2016, from $72 million as of December 31, 2015, and $7 million, or 11.2%, to $72 million as of December 31, 2015, from $65 million as of December 31, 2014. Non-accrual loans, the largest component of non-performing loans, increased $6 million, or 9.7%, to $73 million as of December 31, 2016, from $66 million as of December 31, 2015. This increase was primarily due the loans of two commercial and one agricultural borrower aggregating $20 million placed on non-accrual status in 2016. This increase was largely offset by the movement of non-performing loans out of the portfolio through pay-downs, charge-offs and foreclosures.

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

We generally place loans on non-accrual when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on non-accrual status, any interest previously accrued but not collected is reversed from income. Approximately $3.4 million, $3.2 million and $4.0 million of gross interest income would have been accrued if all loans on non-accrual had been current in accordance with their original terms for the years ended December 31, 2016, 2015 and 2014, respectively.

Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and when, in the opinion of management, the loans are estimated to be fully collectible as to both principal and interest. Loans returned to accrual status are no longer considered impaired.

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

Non-Performing Loans by Loan Type
(Dollars in thousands)

	As of December 31,									
	2016	Percent	2015	Percent	2014	Percent	2013	Percent	2012	Percent
Real estate:										
Commercial	$26,514	34.6 %	$24,189	33.6 %	$27,700	42.8 %	$48,955	50.7 %	$50,518	45.8 %
Construction:										
Land acquisition and development	5,304	6.9	7,956	11.1	8,252	12.7	16,307	16.9	19,627	17.8
Commercial	762	1.0	955	1.3	2,564	4.0	225	20.0	8,126	7.4
Residential	456	0.6	293	0.4	272	40.0	1,372	1.4	2,175	2.0
Total construction	6,522	8.5	9,204	12.8	11,088	17.1	17,904	18.5	29,928	27.2
Residential	7,137	9.3	7,305	10.1	4,554	7.0	7,276	7.5	11,511	10.5
Agricultural	4,327	5.7	5,355	7.4	6,842	10.6	8,574	8.9	5,048	4.6
Total real estate	44,500	58.1	46,053	63.9	50,184	77.5	82,709	85.6	97,005	88.1
Consumer	2,894	3.8	1,918	2.7	1,282	2.0	1,350	1.4	1,727	1.6
Commercial	26,166	34.2	23,012	32.0	12,846	19.8	12,487	12.9	10,819	9.8
Agricultural	3,022	3.9	690	1.0	446	0.7	125	0.1	525	0.5
Other	$—	—	$314	0.4	—	—	$—	—	$—	—
Total non-performing loans	$76,582	100.0%	$71,987	100.0%	$64,758	100.0%	$96,671	100.0%	$110,076	100.0%

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

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

OREO increased $4 million, or 60.2%, to $10 million as of December 31, 2016, from $6 million as of December 31, 2015. During 2016, we recorded additions to OREO of $9 million, $1 million of which was acquired in conjunction with the Flathead acquisition, wrote down the fair value of OREO properties by $603 thousand and sold OREO with a book value of $4 million. As of December 31, 2016, 28% of our OREO balance related to land and land development properties, 48% to commercial properties, 23% to residential real estate properties and 1% to construction properties.

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

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Troubled Debt Restructurings. Modifications of performing loans are made in the ordinary course of business and are completed on a case-by-case basis as negotiated with the borrower. Loan modifications typically include interest rate concessions, interest-only periods, short-term payment deferrals and extension of amortization periods to provide payment relief. A loan modification is considered a troubled debt restructuring if the borrower is experiencing financial difficulties and we, for economic or legal reasons, grant a concession to the borrower that we would not otherwise consider. Those modifications deemed to be troubled debt restructurings are monitored centrally to ensure proper classification as a troubled debt restructuring and if or when the loan may be placed on accrual status.

As of December 31, 2016, we had loans renegotiated in troubled debt restructurings of $49 million, of which $27 million were reported as non-accrual loans in the non-performing asset and troubled debt restructurings and non-performing loan tables above. The remaining $22 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, 2015, we had loans renegotiated in troubled debt restructurings of $40 million, of which $25 million were reported as non-accrual loans in the non-performing asset and troubled debt restructuring and non-performing loan tables above. The remaining $15 million were on accrual status and are reported as troubled debt restructurings in the non-performing asset and troubled debt restructurings table above.

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

Allowance for Loan Losses

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

The allowance for loan losses is increased by provisions charged against earnings and recoveries of charged-off loans and is reduced by negative provisions credited to earnings and loan charge-offs. Loans, or portions thereof, are charged-off when management believes that the collectibility of the principal is unlikely or, with respect to consumer installment and credit card loans, according to established delinquency schedules.

The allowance for loan losses consists of three elements:

(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 one-year loss history.

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

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

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Loans acquired in business combinations are recorded at fair value with no allowance for loan losses on the date of acquisition. Subsequent to the acquisition date, an allowance for loan loss is recorded for the emergence of new probable and estimable losses on loans acquired without evidence of credit impairment. Loans acquired with evidence of credit impairment are regularly monitored and to the extent that the performance has deteriorated from management's expectations at the date of acquisition, an allowance for loan losses is established. As of December 31, 2016 and 2015, management determined that an allowance for loan losses of $623 thousand and $382 thousand, respectively, was required for acquired loans under generally accepted accounting principles.

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

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

Impaired and non-performing loans peaked in mid-2011 and our provision for loan losses, which began decreasing during the last half of 2011, continued to decrease through 2014, with negative provisions recorded during the last half of 2013 and the first half of 2014. During 2016, we recorded provisions for loan losses of $10.0 million, as compared to $6.8 million in 2015. Increases in provisions for loan losses during 2016, as compared to 2015, are reflective of loan growth, increases in general and specific reserves related to energy sector loans and higher levels of criticized and non-performing loans.

During 2015, we recorded provisions for loan losses of $6.8 million, of which $3.3 million was recorded during fourth quarter. Approximately 73% of the fourth quarter 2015 provision for loan losses was the result of specific reserves related to the loans of one borrower. This compares to a reversal of provision for loan losses of $6.6 million in 2014. Increases in provisions for loan losses during 2015, as compared to 2014, are reflective of loan growth and increases in specific reserves primarily related to four commercial real estate relationships.

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

Allowance for Loan Losses
(Dollars in thousands)

As of and for the year ended December 31,	2016	2015	2014	2013	2012
Balance at the beginning of period	$76,817	$74,200	$85,339	$100,511	$112,581
Charge-offs:					
Real estate					
Commercial	3,506	327	2,042	4,430	13,014
Construction	723	2,363	328	3,515	25,510
Residential	976	717	637	2,177	4,879
Agricultural	10	669	7	102	103
Consumer	8,607	5,683	4,887	4,612	5,320
Commercial	5,838	1,657	6,030	5,672	11,990
Agricultural	183	221	64	5	120
Total charge-offs	19,843	11,637	13,995	20,513	60,936
Recoveries:					
Real estate					
Commercial	475	1,830	953	3,644	907
Construction	1,836	903	2,009	2,010	2,022
Residential	360	387	358	424	310
Agricultural	587	13	3	9	2
Consumer	2,781	2,549	2,347	2,059	1,945
Commercial	3,205	1,749	3,781	3,293	2,905
Agricultural	5	1	27	27	25
Total recoveries	9,249	7,432	9,478	11,466	8,116
Net charge-offs	10,594	4,205	4,517	9,047	52,820
Provision for loan losses	9,991	6,822	(6,622)	(6,125)	40,750
Balance at end of period	$76,214	$76,817	$74,200	$85,339	$100,511
Period end loans	$5,478,544	$5,246,196	$4,897,443	$4,344,853	$4,223,912
Average loans	5,378,398	5,056,810	4,602,907	4,281,673	4,176,439
Net charge-offs to average loans	0.20 %	0.08 %	0.10 %	0.21 %	1.26 %
Allowance to period-end loans	1.39	1.46	1.52	1.96	2.38

The allowance for loan losses was $76 million, or 1.39% of period-end loans, at December 31, 2016, compared to $77 million, or 1.46% of period-end loans, at December 31, 2015, and $74 million, or 1.52% of period-end loans, at December 31, 2014. The decrease in the allowance for loan losses as a percentage of total loans as of December 31, 2016, compared to December 31, 2015 and December 31, 2014, is primarily due to organic loan growth and the addition of acquired loans which are initially recorded at fair value with no carryover of the related allowance for loan losses.

During second quarter 2016, we performed an in-depth review of qualitative factors used in determining the appropriate level of the allowance for loan losses to better reflect our loss experience. The review resulted in reductions in general reserves allocated to commercial real estate and construction loans. Decreases in general reserves were more than offset by increases in specific reserves on commercial real estate loans. The adjustment of qualitative factors combined with the management's assessment of losses on specific loans with identified weaknesses did not result in a material impact to the overall level of our allowance for loan losses.

During third quarter 2015, we added a general economic qualitative loss factor to our allowance for loan loss calculation to estimate the potential impact of economic stresses on loans in our markets which are heavily impacted by energy prices. As of December 31, 2016, our direct exposure to the energy sector was approximately $59 million in outstanding loans, including approximately $43 million related to drilling and extraction activity and approximately $16 million advanced to service companies. We also had commitments to lend an additional $25 million to energy borrowers. Reserves allocated to

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energy loans as a percentage of total energy loans totaled 12.8% as of December 30, 2016, compared to 7.8% as of December 31, 2015. The increase in reserves allocated to energy loans was primarily due to specific valuation allowances related to the loans of two energy borrowers, an increase in criticized and classified energy sector loans and an increase in the general economic loss factor applied to all loans in markets heavily impacted by energy prices.

Although we believe that we have established our allowance for loan losses in accordance with accounting principles generally accepted in the United States and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times during the five-year period ended December 31, 2016, future provisions will be subject to on-going evaluations of the risks in the loan portfolio. If the economy declines or asset quality deteriorates, material additional provisions could be required.

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

Allocation of the Allowance for Loan Losses
(Dollars in thousands)

As of December 31,	2016		2015		2014		2013		2012	
	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans
Real estate	$28,625	64.2 %	$52,296	65.1 %	$53,884	65.9 %	$63,923	65.4 %	$75,782	64.5 %
Consumer	7,711	17.7	5,144	16.1	5,035	15.6	6,193	15.5	7,141	15.1
Commercial	38,092	14.6	18,775	15.1	14,307	15.1	14,747	15.6	17,085	16.3
Agricultural	1,786	2.4	602	2.7	974	2.5	476	2.6	503	2.8
Other loans	—	—	—	—	—	0.1	—	—	—	—
Mortgage loans held for sale	—	1.1	—	1.0	—	0.8	—	0.9	—	1.3
Unallocated	—	N/A	—	N/A	—	N/A	—	N/A	—	N/A
Totals	$76,214	100.0 %	$76,817	100.0 %	$74,200	100.0 %	$85,339	100.0 %	$100,511	100.0 %

The allowance for loan losses allocated to real estate loans decreased 45.2% to $29 million as of December 31, 2016, from $52 million as of December 31, 2015, primarily due to adjustment of our percentage loss factors applied to the credit exposures from outstanding real estate loans utilizing our loss experience subsequent to the financial crisis, which were partially offset by increases in criticized and classified real estate loans. The allowance for loan losses allocated to real estate loans, decreased 15.7% to $54 million as of December 31, 2014, from $64 million as of December 31, 2013, and decreased 15.6% to $64 million as of December 31, 2013, from $76 million as of December 31, 2012, primarily due to improvement in real estate values and housing demand in our market areas.

The allowance for loan losses allocated to commercial loans increased 102.8% to $38 million as of December 31, 2016, from $19 million as of December 31, 2015, primarily due to adjustment of our percentage loss factors applied to the credit exposures from outstanding commercial loans utilizing our loss experience subsequent to the financial crisis, an increase in criticized and classified energy sector loans and an increase in the general economic loss factor applied to all energy sector loans. The allowance for loan losses allocated to commercial loans increased 31.2% to $19 million as of December 31, 2015, from $14 million as of December 31, 2014, primarily due to increases in specific valuation allowances on impaired loans.

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Investment Securities

We manage our investment portfolio to obtain the highest yield possible, while meeting our risk tolerance and liquidity guidelines and satisfying the pledging requirements for deposits of state and political subdivisions and securities sold under repurchase agreements. Our portfolio principally comprises U.S. government agency residential mortgage-backed securities and collateralized mortgage obligations, U.S. government agency securities and tax exempt securities. Federal funds sold and interest bearing deposits in bank are additional investments that are classified as cash equivalents rather than as investment securities. Investment securities classified as available-for-sale are recorded at fair value, while investment securities classified as held-to-maturity are recorded at amortized cost. Unrealized gains or losses, net of the deferred tax effect, on available-for-sale securities are reported as increases or decreases in accumulated other comprehensive income or loss, a component of stockholders’ equity.

Investment securities increased $67 million, or 3.3%, to $2,124 million as of December 31, 2016, from $2,058 million as of December 31, 2015, primarily due to the Flathead acquisition. Investment securities decreased $230 million, or 10.0%, to $2,058 million as of December 31, 2015, from $2,287 million as of December 31, 2014. During 2015, proceeds from maturities and pay-downs of investment securities were primarily used to fund loan growth.

On October 31, 2015, we transferred available-for-sale U.S. agency residential mortgage-backed securities and collateralized mortgage obligations with amortized costs and fair values of $100 million and $100 million, respectively, into the held-to-maturity category. Net unrealized losses of $203 thousand included in accumulated other comprehensive income at the time of the transfer are being amortized to yield over the remaining expected lives of the transferred securities of 4.0 years. On June 27, 2014, we transferred available-for-sale U.S. agency residential mortgage-backed securities and collateralized mortgage obligations with amortized costs and fair values of $397 million and $389 million, respectively, into the held-to-maturity category. Net unrealized losses of $8 million included in accumulated other comprehensive income at the time of the transfer are being amortized to yield over the remaining expected lives of the transferred securities of 4.3 years.

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The following table sets forth the book value, percentage of total investment securities and weighted average yields on investment securities as of December 31, 2016. Weighted-average yields have been computed on a fully taxable-equivalent basis using a tax rate of 35%.

Securities Maturities and Yield
(Dollars in thousands)

	Book Value	% of Total Investment Securities	Weighted Average FTE Yield
U.S. Treasuries			
Maturing within one year	$399	0.02 %	1.07 %
Maturing in one to five years	3,209	0.15	0.12
Mark-to-market adjustments on securities available-for-sale	4	—	NA
Total	3,612	0.17	1.15
U.S. Government agency securities			
Maturing within one year	13,568	0.64	0.89
Maturing in one to five years	353,531	16.64	1.44
Maturing in five to ten years	50,050	2.36	1.83
Mark-to-market adjustments on securities available-for-sale	(6,114)	(0.29)	NA
Total	411,035	19.35	1.33
Mortgage-backed securities			
Maturing within one year	407,077	19.16	2.50
Maturing in one to five years	928,964	43.74	1.38
Maturing in five to ten years	110,936	5.22	2.41
Maturing after ten years	53,607	2.52	3.00
Mark-to-market adjustments on securities available-for-sale	(7,189)	(0.34)	NA
Total	1,493,395	70.30	1.81
Marketable CDs			
Maturing in one to five years	2,951	0.14	1.89
Mark-to-market adjustments on securities available-for-sale	21	—	NA
Total	2,972	0.14	1.53
Tax exempt securities			
Maturing within one year	12,212	0.57	2.60
Maturing in one to five years	58,602	2.76	3.75
Maturing in five to ten years	79,740	3.75	4.72
Maturing after ten years	9,637	0.45	5.21
Mark-to-market adjustments on securities available-for-sale	—	—	NA
Total	160,191	7.53	4.26
Corporate securities			
Maturing in one to five years	47,032	2.22	1.89
Maturing after ten years	6,000	0.28	5.75
Mark-to-market adjustments on securities available-for-sale	—	—	NA
Total	53,032	2.50	1.75
Other securities			
Maturing in five to ten years	231	0.01	7.67
Mark-to-market adjustments on securities available-for-sale	—	—	NA
Total	231	0.01	7.67
Total	$2,124,468	100.00 %	1.80 %

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Maturities of U.S. government agency securities noted above reflect $140 million of investment securities at their final maturities although they have call provisions within the next year. Based on current market interest rates, management expects approximately $5 million of these securities will be called in 2017.

As of December 31, 2016, the estimated duration of our investment portfolio was 3.0 years, as compared to 2.8 years as of December 31, 2015. The weighted average yield on investment securities increased 10 basis points to 1.80% in 2016, from 1.70% in 2015, and decreased 3 basis points to 1.70% in 2015, from 1.73% in 2014.

As of December 31, 2016, investment securities with amortized costs and fair values of $1,400 million and $1,388 million, respectively, were pledged to secure public deposits and securities sold under repurchase agreements, as compared to $1,325 million and $1,329 million, respectively, as of December 31, 2015. For additional information concerning securities sold under repurchase agreements, see "—Securities Sold Under Repurchase Agreements" included herein.

Mortgage-backed securities, and to a limited extent other securities, have uncertain cash flow characteristics that present additional interest rate risk in the form of prepayment or extension risk primarily caused by changes in market interest rates. This additional risk is generally rewarded in the form of higher yields. Maturities of mortgage-backed securities presented above have been adjusted to reflect shorter maturities based upon estimated prepayments of principal. As of December 31, 2016, the carrying value of our investments in non-agency mortgage-backed securities totaled $116 thousand. All other mortgage-backed securities included in the table above were issued by U.S. government agencies and corporations. As of December 31, 2016, there were no significant concentrations of investments (greater than 10% of stockholders' equity) in any individual security issuer, except for U.S. government or agency-backed securities.

As of December 31, 2016, approximately 82% of our tax-exempt securities were general obligation securities, of which 60% were issued by political subdivisions or agencies within the states of Montana, Wyoming and South Dakota.

As of December 31, 2015, we had U.S. treasuries with carrying values of $4 million and a weighted average yield of $1.15%; U.S. government agency securities with carrying values of $520 million and a weighted average yield of 1.33%; mortgage-backed securities with carrying values of $1,306 million and a weighted average yield of 2.01%; marketable certificates of deposits with carrying values of $4 million and a weighted average yield of 1.53%; tax exempt securities with carrying values of $174 million and a weighted average tax equivalent yield of 4.26%; corporate securities with carrying values of $50 million and a weighted average yield of 1.75%; and, other securities with carrying values of $354 thousand with a weighted average yield of 7.67%.

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

We evaluate our investment portfolio quarterly for other-than-temporary declines in the market value of individual investment securities. This evaluation includes monitoring credit ratings; market, industry and corporate news; volatility in market prices; and, determining whether the market value of a security has been below its cost for an extended period of time. As of December 31, 2016, we had investment securities with fair values of $38.7 million that had been in a continuous loss position more than twelve months. Gross unrealized losses on these securities totaled $2 million as of December 31, 2016, and were primarily attributable to changes in interest rates. No impairment losses were recorded during 2016, 2015 or 2014.

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

Goodwill

Goodwill increased $8 million, or 4.1%, to $213 million as of December 31, 2016, from $205 million as of December 31, 2015. During third quarter 2016, we recorded goodwill of $8 million in conjunction with the Flathead acquisition. Goodwill decreased $1 million to $205 million as of December 31, 2015, from $206 million as of December 31, 2014. During third quarter 2015, we recorded goodwill of $148 thousand in conjunction with the Absarokee acquisition. This increase was offset by a $1 million decrease in recorded goodwill resulting from the finalization of the fair valuation of deferred tax assets acquired in the MWFC acquisition.

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Deposits

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

The following table summarizes our deposits as of the dates indicated:
Deposits
(Dollars in thousands)

As of December 31,	2016	Percent	2015	Percent	2014	Percent	2013	Percent	2012	Percent
Non-interest bearing demand	$1,906,257	25.8 %	$1,823,716	25.6 %	$1,791,364	25.5 %	$1,491,683	24.3 %	$1,495,309	24.0 %
Interest bearing:										
Demand	2,276,494	30.9	2,178,373	30.8	2,133,273	30.5	1,848,806	30.2	1,811,905	29.0
Savings	2,141,761	29.0	1,955,256	27.6	1,843,355	26.0	1,602,544	26.1	1,547,713	24.8
Time, $100 or more	461,368	6.3	487,372	6.9	520,125	7.3	492,051	8.0	594,712	9.5
Time, other	590,230	8.0	644,220	9.1	718,095	10.1	698,666	11.4	790,772	12.7
Total interest bearing	5,469,853	74.2	5,265,221	74.4	5,214,848	74.5	4,642,067	75.7	4,745,102	76.0
Total deposits	$7,376,110	100.0 %	$7,088,937	100.0 %	$7,006,212	100.0 %	$6,133,750	100.0 %	$6,240,411	100.0 %

Total deposits increased $287 million, or 4.1%, to $7,376 million as of December 31, 2016, from $7,089 million as of December 31, 2015, with approximately $210 million of the increase attributable to the Flathead acquisition in August 2016. Total deposits increased $83 million, or 1.2%, to $7,089 million as of December 31, 2015, from $7,006 million as of December 31, 2014, with approximately $64 million of the increase attributable to the Absarokee acquisition in July 2015. During 2016 and 2015, the mix of deposits continued to shift from higher-costing time deposits to lower-costing savings and demand deposits. Management attributes this ongoing gradual shift to a sustained low interest rate environment. Exclusive of acquisitions, deposit growth in 2016 and 2015 was attributable to organic growth.

Non-interest bearing demand deposits. Non-interest bearing demand deposits increased $83 million, or 4.5%, to $1,906 million as of December 31, 2016, from $1,824 million as of December 31, 2015, with approximately $65 million of the increase attributable to the Flathead acquisition in August 2016. Non-interest bearing demand deposits increased $32 million, or 1.8%, to $1,824 million as of December 31, 2015, from $1,791 million as of December 31, 2014, with approximately $10 million of the increase attributable to the Absarokee acquisition in July 2015.

Interest bearing demand deposits. Interest bearing demand deposits increased $98 million, or 4.5%, to $2,276 million as of December 31, 2016, from $2,178 million as of December 31, 2015, with approximately $57 million of the increase attributable to the Flathead acquisition in August 2016. Interest bearing demand deposits increased $45 million, or 2.1%, to $2,178 million as of December 31, 2015, from $2,133 million as of December 31, 2014, with approximately $13 million of the increase attributable to the Absarokee acquisition.

Savings deposits. Savings deposits increased $187 million, or 9.5%, to $2,142 million as of December 31, 2016, from $1,955 million as of December 31, 2015, with approximately $66 million of the increase attributable to the Flathead acquisition in August 2016. Savings deposits increased $112 million, or 6.1%, to $1,955 million as of December 31, 2015, from $1,843 million as of December 31, 2014, with approximately $24 million of the increase attributable to the

Absarokee acquisition.

Management attributes organic growth in non-interest bearing demand, interest bearing demand and savings deposits during 2016 and 2015 to changes in customer liquidity combined with continued low interest rates offered on alternative interest earning deposit products.

Time deposits of $100,000 or more. Time deposits of $100,000 or more decreased $26 million, or 5.3%, to $461 million as of December 31, 2016, from $487 million as of December 31, 2015. Time deposits of $100,000 or more decreased $33 million, or 6.3%, to $487 million as of December 31, 2015, from $520 million as of December 31, 2014. Exclusive of deposits acquired in the Absarokee acquisition in July 2015, time deposits of $100,000 or more decreased approximately $41 million, or 7.8%, from December 31, 2014.

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Other time deposits. Other time deposits decreased $54 million, or 8.4%, to $590 million as of December 31, 2016, from $644 million as of December 31, 2015. Exclusive of other time deposits acquired in the Flathead acquisition in August 2016, other time deposits decreased $76 million, or 11.8%, from December 31, 2015 to December 31, 2016. Other time deposits decreased $74 million, or 10.3%, to $644 million as of December 31, 2015, from $718 million as of December 31, 2014. Exclusive of deposits acquired in the Absarokee acquisition in July 2015, other time deposits decreased approximately $81 million, or 11.3%, from December 31, 2014.

Management attributes organic decreases in time deposits during 2016 and 2015 to the impact of a continued low interest rate environment as many customers appear to have become less inclined to invest their funds for extended periods.

As of December 31, 2016 and 2015, we had Certificate of Deposit Account Registry Service, or CDARS, deposits of $26 million and $38 million, respectively. As of December 31, 2016 and 2015, we had no certificates of deposit issued in brokered transactions.

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

Securities Sold Under Repurchase Agreements

Under repurchase agreements with commercial and municipal depositors, customer deposit balances are invested in short-term U.S. government agency securities overnight and are then repurchased the following day. All outstanding repurchase agreements are due in one day. Repurchase agreement balances increased $27 million, or 5.3%, to $538 million as of December 31, 2016, from $511 million as of December 31, 2015, and increased $8 million, or 1.7%, to $511 million as of December 31, 2015, from $503 million as of December 31, 2014. Fluctuations in repurchase agreement balances correspond with fluctuations in the liquidity of our customers.

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

Securities Sold Under Repurchase Agreements
(Dollars in thousands)

As of and for the year ended December 31,	2016	2015	2014
Securities sold under repurchase agreements:			
Balance at period end	$537,556	$510,635	$502,250
Average balance	481,014	456,255	454,265
Maximum amount outstanding at any month-end	537,556	510,635	547,153
Average interest rate:			
During the year	0.09 %	0.05 %	0.05 %
At period end	0.18	0.07	0.10

Long-Term Debt

Long-term debt remained stable at $28 million as of December 31, 2016 and 2015, and decreased $10 million, or 26.7%, to $28 million as of December 31, 2015, from $38 million as of December 31, 2014. On January 29, 2015, we borrowed $5 million on a 2.28% note payable maturing July 29, 2022, with interest payable monthly and principal due at maturity. The note is collateralized by our equity interest in Universal Sub CDE, LLC, a community development entity owned 99.9% by us. This increase was more than offset by the fourth quarter 2015 early repayment of a $15 million variable rate subordinated term loan with an original maturity date of February 28, 2018. There were no prepayment penalties associated with the repayment. For additional information regarding the long-term debt, see “Notes to Consolidated Financial Statements—Long-Term Debt,” included in Part IV, Item 15 of this report.

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Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses decreased $8 million, or 15.31%, to $45 million as of December 31, 2016, from $53 million as of December 31, 2015, primarily due to the timing and amounts of corporate tax payments. In addition, during 2016, we amended our post-retirement healthcare plan to discontinue offering healthcare benefits to future retirees beginning July 1, 2016. The plan amendment reduced our accumulated post-retirement benefit obligation by $3 million in 2016. Accounts payable and accrued expenses decreased $13 million, or 19.8%, to $53 million as of December 31, 2015, from $66 million as of December 31, 2014, primarily due to timing and amounts of corporate tax payments and lower incentive bonus and profit sharing accruals.

Deferred Tax Liability/Asset

Our net deferred tax liability decreased $3 million, or 30.0%, to $7 million as of December, 31, 2016, from $10 million as of December 31, 2015, primarily due to increases in deferred tax assets related to unrealized losses on available-for sale investment securities.

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

Contractual Obligations

Contractual obligations as of December 31, 2016 are summarized in the following table.

Contractual Obligations

(Dollars in thousands)

	Payments Due				
	Within One Year	One Year to Three Years	Three Years to Five Years	After Five Years	Total
Deposits without a stated maturity	$6,324,512	$—	$—	$—	$6,324,512
Time deposits	707,788	156,673	187,050	87	1,051,598
Securities sold under repurchase agreements	537,556	—	—	—	537,556
Other borrowed funds (1)	6	—	—	—	6
Long-term debt obligations (2)	—	20,000	—	6,453	26,453
Capital lease obligations	71	160	187	1,099	1,517
Operating lease obligations	2,401	4,465	4,055	10,260	21,181
Purchase obligations (3)	3,016	—	—	—	3,016
Subordinated debentures held by subsidiary trusts (4)	—	—	—	82,477	82,477
Total contractual obligations	$7,575,350	$181,298	$191,292	$100,376	$8,048,316

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

(2) Long-term debt obligations consists of a fixed rate note payable bearing interest of 2.28% and maturing on July 29, 2022; fixed rate note payable bearing interest of 6.24% and maturing on September 6, 2032; and, a fixed rate

subordinated term loan bearing interest of 6.81% and maturing January 9, 2018. For additional information concerning long-term debt, see “Notes to Consolidated Financial Statements — Long Term Debt and Other Borrowed Funds” included in Part IV, Item 15.

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

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

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

Off-Balance Sheet Arrangements

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

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

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

Capital Resources and Liquidity Management

Capital Resources

Stockholders’ equity is influenced primarily by earnings, dividends, sales and redemptions of common stock and changes in the unrealized holding gains or losses, net of taxes, on available-for-sale investment securities. Stockholders’ equity increased $32 million, or 3.4%, to $983 million as of December 31, 2016 from $950 million as of December 31, 2015, due primarily to the retention of earnings. Increases in stockholders' equity due to earnings retention were partially offset by the repurchase and retirement of our common stock. During 2016, we repurchased and retired 975,877 shares of our Class A common stock in open market transactions at an aggregate purchase price of $26 million. The repurchases were made pursuant to a stock repurchase program approved by our Board of Directors on September 24, 2015. We paid aggregate cash dividends of $39 million to common shareholders during 2016. On January 19, 2017, we declared a quarterly dividend to common stockholders of $0.24 per share, which was paid on February 10, 2017 to shareholders of record as of January 30, 2017. For additional information regarding the repurchases, see “Notes to Consolidated Financial Statements — Capital Stock and Dividend Restrictions” included in Part IV, Item 15 of this report.

Stockholders’ equity increased $42 million, or 4.6%, to $950 million as of December 31, 2015 from $909 million as of December 31, 2014, due primarily to the retention of earnings. Increases in stockholders' equity due to earnings retention were partially offset by the repurchase and retirement of our common stock. During 2015, we repurchased and retired 765,875 shares of our Class A common stock in open market transactions at an aggregate purchase price of $20 million. The repurchases were made pursuant to a stock repurchase program approved by our Board of Directors in January 2015. We paid aggregate cash dividends of $36 million to common shareholders during 2015.

On January 26, 2017, we filed a registration statement on Form S-4 to register 11,810,425 shares of Class A common stock to be issued as partial consideration for our acquisition of Cascade Bancorp. For additional information regarding the pending acquisition, see "—Executive Overview—Recent Trends and Developments" included above and "Note 2 – Acquisitions" in the accompanying "Notes to Consolidated Financial Statements" included in this report.

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

On July 2, 2013, the Board of Governors of the Federal Reserve Bank, or the Federal Reserve Board, issued a final rule implementing a revised regulatory capital framework for U.S. banks in accordance with the Basel III international accord and satisfying related mandates under the Dodd-Frank Act. Under the final rule, minimum capital requirements will increase for both quantity and quality of capital held by banking organizations. The final rule includes a new common equity tier 1 minimum

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capital requirement of 4.5% of risk-weighted assets and increases the minimum tier 1 capital requirement from 4.0% to 6.0% of risk-weighted assets. The minimum total risk-based capital remains unchanged at 8.0% of total risk-weighted assets. In addition to the minimum common equity tier 1, tier 1 and total risk-based capital requirements, the final rule requires banking organizations to hold a buffer of common equity tier 1 capital in an amount above 2.5% of total risk-weighted assets to avoid restrictions on capital distributions and discretionary bonus payments to executive officers. The minimum regulatory capital requirements and compliance with a standardized approach for determining risk-weighted assets of the final rule became effective for us on January 1, 2015. The capital conservation buffer framework transition period begins January 1, 2016, with full implementation effective January 1, 2019.

As of December 31, 2016 and 2015, we had capital levels that, in all cases, exceeded the well capitalized guidelines. Additionally, our calculations indicate that as of December 31, 2016, we would meet all fully phased-in Basel III capital adequacy requirements. For additional information regarding the impact of this final rule, see "Regulation and Supervision — Capital Standards and Prompt Corrective Action" included in Part I, Item 1 of this report. For additional information regarding our capital levels, see “Notes to Consolidated Financial Statements—Regulatory Capital,” included in Part IV, Item 15 of this report.

Liquidity

Liquidity measures our ability to meet current and future cash flow needs on a timely basis and at a reasonable cost. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders. Our liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash, interest bearing deposits in banks, federal funds sold, available-for-sale investment securities and maturing or prepaying balances in our held-to-maturity investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and borrowings. Other sources of liquidity include the sale of loans, the ability to acquire additional national market funds through non-core deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, additional borrowings through the Federal Reserve’s discount window and the issuance of preferred or common securities.

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

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

Asset Liability Management

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

Interest Rate Risk

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

The ability to optimize net interest income is largely dependent upon the achievement of an interest rate spread that can be managed during periods of fluctuating interest rates. Interest sensitivity is a measure of the extent to which net interest income will be affected by market interest rates over a period of time. Interest rate sensitivity is related to the difference between amounts of interest earning assets and interest bearing liabilities which either reprice or mature within a given period of time. The difference is known as interest rate sensitivity gap.

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The following table shows interest rate sensitivity gaps and the earnings sensitivity ratio for different intervals as of December 31, 2016. The information presented in the table is based on our mix of interest earning assets and interest bearing liabilities and historical experience regarding their interest rate sensitivity.

Interest Rate Sensitivity Gaps
(Dollars in thousands)

	Projected Maturity or Repricing				
	Three Months or Less	Three Months to One Year	One Year to Five Years	After Five Years	Total
Interest earning assets:					
Loans (1)	$1,786,878	$989,435	$2,290,668	$338,770	$5,405,751
Investment securities (2)	142,483	426,082	1,337,387	218,516	2,124,468
Interest bearing deposits in banks	635,149	—	—	—	635,149
Federal funds sold	95	—	—	—	95
Total interest earning assets	$2,564,605	$1,415,517	$3,628,055	$557,286	$8,165,463
Interest bearing liabilities:					
Interest bearing demand accounts (3)	$677,136	$515,944	$1,083,414	$—	$2,276,494
Savings deposits (3)	1,192,184	488,288	461,289	—	2,141,761
Time deposits, $100 or more	121,615	200,757	138,996	—	461,368
Other time deposits	166,798	218,705	204,727	—	590,230
Securities sold under repurchase agreements	537,556	—	—	—	537,556
Other borrowed funds	6	—	—	—	6
Long-term debt	17	54	20,347	7,552	27,970
Subordinated debentures held by subsidiary trusts	82,477	—	—	—	82,477
Total interest bearing liabilities	$2,777,789	$1,423,748	$1,908,773	$7,552	$6,117,862
Rate gap	$(213,184)	$(8,231)	$1,719,282	$549,734	$2,047,601
Cumulative rate gap	(213,184)	(221,415)	1,497,867	2,047,601	
Cumulative rate gap as a percentage of total interest earning assets	-2.61%	-2.71%	18.34%	25.08%	25.08%

(1) Does not include non-accrual loans of $73 million. Variable rate loans are included in the three months or less category in the above table although certain of these loans have reached interest rate floors and may not immediately reprice.

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

(3) Interest bearing demand and savings deposits, while technically subject to immediate withdrawal, actually display sensitivity characteristics that generally fall within one to five years. Their allocation is presented based on those sensitivity characteristics. If these deposits were included in the three month or less category, the above table would reflect a negative three month gap of $2.8 million, a negative cumulative one year gap of $1.8 million and a positive cumulative one to five year gap of $1.5 million.

Net Interest Income Sensitivity

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

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We target a mix of interest earning assets and interest bearing liabilities such that no more than 4% of the net interest income will be at risk over a one-year period should interest rates shift up or down 2%. As of December 31, 2016, our income simulation model predicted net interest income would increase $2.5 million, or 0.9%, assuming a 0.5% increase in interest rates during each of the next four consecutive quarters. This scenario predicts that our interest bearing assets reprice slightly faster than our interest bearing liabilities. We have not engaged in significant derivative or balance sheet hedging activities to manage our interest rate risk.

We did not simulate a decrease in interest rates due to the extremely low rate environment as of December 31, 2016. Prime rate has historically been set at a rate of 300 basis points over the targeted federal funds rate, which is currently set between 50 and 75 basis points. Our income simulation model has an assumption that prime will continue to be set at a rate of 300 basis points over the targeted federal funds rate. Additionally, rates that are currently below 2% are modeled not to fall below 0% with an overall decrease of 2% in interest rates. Although we did not simulate a decrease in interest rates due to the extremely low rate environment as of December 31, 2016, a further decline in interest rates would result in compression of our net interest income.

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

Recent Accounting Pronouncements

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

Item 8. Financial Statements and Supplementary Data

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

Report of RSM US LLP, Independent Registered Public Accounting Firm
Consolidated Balance Sheets — December 31, 2016 and 2015
Consolidated Statements of Income — Years Ended December 31, 2016, 2015 and 2014
Consolidated Statements of Comprehensive Income — Years Ended December 31, 2016, 2015 and 2014
Consolidated Statements of Stockholders’ Equity — Years Ended December 31, 2016, 2015 and 2014
Consolidated Statements of Cash Flows — Years Ended December 31, 2016, 2015 and 2014
Notes to Consolidated Financial Statements

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

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

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. As of December 31, 2016, our management evaluated, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of December 31, 2016, were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods required by the SEC's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our system of internal control over financial reporting within the meaning of Rules 13a-15(f) and 15d-15(f) of the Exchange Act is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of our published financial statements in accordance with U.S. generally accepted accounting principles. Our management, including the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of our system of internal control over financial reporting as of December 31, 2016. In making this assessment, we used the criteria set forth in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on our assessment, we believe that, as of December 31, 2016, our system of internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

RSM US LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2016. The report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2016, is included below.

Report of Independent Registered Public Accounting Firm

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

We have audited First Interstate BancSystem, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. First Interstate BancSystem, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, First Interstate BancSystem, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 1, 2017 expressed an unqualified opinion.

/s/ RSM US LLP
Des Moines, Iowa
March 1, 2017

Item 9B. Other Information

There were no items required to be disclosed in a report on Form 8-K during the fourth quarter of 2016 that were not reported.

PART III
Item 10. Directors, Executive Officers and Corporate Governance

Information concerning "Directors, Executive Officers and Corporate Governance" is set forth under the headings, "Annual Meeting of First Interstate Shareholders — Proposal No. 4 — Election of Directors" and "Corporate Governance — Board Committees and Related Matters — Audit Committee" in our Joint Proxy Statement/Prospectus relating to our 2017 annual meeting of shareholders and is herein incorporated by reference.

Information concerning "Compliance With Section 16(a) of the Securities Exchange Act of 1934" is set forth under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in our Joint Proxy Statement/Prospectus relating to our 2017 annual meeting of shareholders and is herein incorporated by reference.

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Item 11. Executive Compensation

Information concerning "Executive Compensation" is set forth under the headings "Compensation Discussion and Analysis," "Compensation of Executive Officers and Directors" and "Corporate Governance and Related Matters — Compensation Committee" in our Joint Proxy Statement/Prospectus relating to our 2017 annual meeting of shareholders and is herein incorporated by reference.

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

Information concerning "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" is set forth under the heading "Stock Ownership" in our Joint Proxy Statement/Prospectus relating to our 2017 annual meeting of shareholders and is herein incorporated by reference.

The following table provides information, as of December 31, 2016, regarding our equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans(1)
Equity compensation plans approved by shareholders(2)	940,843	$16.77	1,954,792
Equity compensation plans not approved by shareholders	NA	NA	NA

(1) Excludes number of securities to be issued upon exercise of outstanding options, warrants and rights.

(2) Represents stock options issued pursuant to the 2006 Equity Compensation Plan, as amended and restated. For additional information, see "Notes to Consolidated Financial Statements—Stock Based Compensation" included in financial statements included Part IV, Item 15 of this report.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information concerning "Certain Relationships and Related Transactions and Director Independence" is set forth under the headings "Corporate Governance—Director Independence" and "Certain Relationships and Related Transactions" in our Joint Proxy Statement/Prospectus relating to our 2017 annual meeting of shareholders and is herein incorporated by reference. In addition, see "Notes to Consolidated Financial Statements—Related Party Transactions" included in Part IV, Item 15.

Item 14. Principal Accountant Fees and Services

Information concerning "Principal Accountant Fees and Services" is set forth under the heading "Annual Meeting of First Interstate Shareholders—Proposal No. —Ratification of the Independent Registered Public Accounting Firm" in our Joint Proxy Statement/Prospectus relating to our 2017 annual meeting of shareholders and is herein incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Interstate BancSystem, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Interstate BancSystem, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 1, 2017 expressed an unqualified opinion on the effectiveness of First Interstate BancSystem, Inc. and subsidiaries' internal control over financial reporting.

/s/ RSM US LLP
Des Moines, Iowa
March 1, 2017

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

December 31,	2016	2015
Assets		
Cash and due from banks	$146,779	$132,595
Federal funds sold	95	563
Interest bearing deposits in banks	635,149	647,299
Total cash and cash equivalents	782,023	780,457
Investment securities:		
Available-for-sale	1,611,698	1,456,840
Held-to-maturity (estimated fair values of $513,273 and $607,550 at December 31, 2016 and 2015, respectively)	512,770	600,665
Total investment securities	2,124,468	2,057,505
Loans held for investment	5,416,750	5,193,321
Mortgage loans held for sale	61,794	52,875
Total loans	5,478,544	5,246,196
Less allowance for loan losses	76,214	76,817
Net loans	5,402,330	5,169,379
Premises and equipment, net of accumulated depreciation	194,457	190,812
Goodwill	212,820	204,523
Company-owned life insurance	198,116	187,253
Other real estate owned (“OREO”)	10,019	6,254
Accrued interest receivable	29,852	27,729
Mortgage servicing rights, net of accumulated amortization and impairment reserve	18,457	15,621
Core deposit intangibles, net of accumulated amortization	9,648	10,589
Other assets	81,705	78,074
Total assets	$9,063,895	$8,728,196
Liabilities and Stockholders’ Equity		
Deposits:		
Non-interest bearing	$1,906,257	$1,823,716
Interest bearing	5,469,853	5,265,221
Total deposits	7,376,110	7,088,937
Securities sold under repurchase agreements	537,556	510,635
Accounts payable and accrued expenses	44,923	53,042
Accrued interest payable	5,421	4,960
Deferred tax liability, net	6,839	9,765
Long-term debt	27,970	27,885
Other borrowed funds	6	2
Subordinated debentures held by subsidiary trusts	82,477	82,477
Total liabilities	8,081,302	7,777,703
Stockholders’ equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued or outstanding as of December 31, 2016 and 2015	—	—
Common stock	296,071	311,720
Retained earnings	694,650	638,367
Accumulated other comprehensive income (loss), net	(8,128)	406

Total stockholders’ equity	982,593	950,493
Total liabilities and stockholders’ equity	$9,063,895	$8,728,196

See accompanying notes to consolidated financial statements.

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

Year Ended December 31,	2016	2015	2014
Interest income:			
Interest and fees on loans	$259,219	$246,015	$231,469
Interest and dividends on investment securities:			
Taxable	32,160	30,861	29,900
Exempt from federal taxes	3,447	3,998	4,357
Interest on deposits in banks	2,589	1,537	1,334
Interest on federal funds sold	11	12	7
Total interest income	297,426	282,423	267,067
Interest expense:			
Interest on deposits	12,662	13,107	13,779
Interest on securities sold under repurchase agreements	429	231	237
Interest on long-term debt	1,815	2,300	2,016
Interest on subordinated debentures held by subsidiary trusts	2,755	2,422	2,574
Total interest expense	17,661	18,060	18,606
Net interest income	279,765	264,363	248,461
Provision for loan losses	9,991	6,822	(6,622)
Net interest income after provision for loan losses	269,774	257,541	255,083
Non-interest income:			
Mortgage banking revenues	37,222	29,973	23,940
Payment services revenues	34,374	32,750	30,695
Wealth management revenues	20,460	19,907	18,996
Service charges on deposit accounts	18,426	17,031	16,567
Other service charges, commissions and fees	11,506	10,404	10,047
Investment securities gains, net	330	137	61
Other income	10,028	11,313	11,529
Non-recurring litigation recovery	4,150	—	—
Total non-interest income	136,496	121,515	111,835
Non-interest expense:			
Salaries and wages	108,684	101,451	96,513
Employee benefits	35,193	31,324	30,564
Occupancy, net	17,714	17,879	17,796
Furniture and equipment	9,584	15,524	13,816
Outsourced technology services	20,547	10,124	9,423
FDIC insurance premiums	4,548	4,858	4,608
Professional fees	4,990	6,458	4,882
OREO expense, net of income	(44)	(1,475)	(272)
Mortgage servicing rights amortization	2,957	2,434	2,361
Mortgage servicing rights impairment recovery	(35)	(97)	(136)
Core deposit intangibles amortization	3,427	3,388	2,251
Other expenses	50,625	50,936	47,480
Loss contingency expense	—	5,000	4,000
Acquisition expenses	2,821	795	4,017
Total non-interest expense	261,011	248,599	237,303
Income before income tax expense	145,259	130,457	129,615

Income tax expense	49,623	43,662	45,214
Net income	$95,636	$86,795	$84,401
Basic earnings per common share	$2.15	$1.92	$1.89
Diluted earnings per common share	2.13	1.90	1.87

See accompanying notes to consolidated financial statements.

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

Year ended December 31,	2016	2015	2014
Net income	$95,636	$86,795	$84,401
Other comprehensive income (loss) before tax:			
Investment securities available-for-sale:			
Change in net unrealized gains (losses) during the period	(19,379)	3,151	27,522
Reclassification adjustment for net gains included in income	(330)	(137)	(61)
Change in unamortized loss on available-for-sale investment securities transferred into held-to-maturity	1,858	1,611	(6,923)
Change in net unrealized gain (loss) on derivatives	(203)	165	—
Defined benefit post-retirement benefit plans:			
Change in net actuarial loss	3,983	58	1,731
Other comprehensive income (loss), before tax	(14,071)	4,848	22,269
Deferred tax benefit (expense) related to other comprehensive income (loss)	5,537	(1,908)	(8,762)
Other comprehensive income (loss), net of tax	(8,534)	2,940	13,507
Comprehensive income	$87,102	$89,735	$97,908

See accompanying notes to consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share and per share data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2013	$285,535	$532,087	$ (16,041)	$ 801,581
Net income	—	84,401	—	84,401
Other comprehensive income, net of tax	—	—	13,507	13,507
Common stock transactions:				
388,101 common shares purchased and retired	(9,739)	—	—	(9,739)
1,402,811 common shares issued	35,674	—	—	35,674
142,878 non-vested common shares issued	—	—	—	—
29,261 non-vested common shares forfeited or canceled	—	—	—	—
499,625 stock options exercised, net of 239,665 shares tendered in payment of option price and income tax withholding amounts	6,299	—	—	6,299
Tax benefit of stock-based compensation	2,193	—	—	2,193
Stock-based compensation expense	3,634	—	—	3,634
Cash dividends declared:				
Common ($0.64 per share)	—	(28,626)	—	(28,626)
Balance at December 31, 2014	323,596	587,862	(2,534)	908,924
Net income	—	86,795	—	86,795
Other comprehensive income, net of tax	—	—	2,940	2,940
Common stock transactions:				
793,077 common shares purchased and retired	(20,647)	—	—	(20,647)
21,414 common shares issued	—	—	—	—
169,577 non-vested common shares issued	—	—	—	—
19,184 non-vested common shares forfeited or canceled	—	—	—	—
261,080 stock options exercised, net of 89,358 shares tendered in payment of option price and income tax withholding amounts	3,369	—	—	3,369
Tax benefit of stock-based compensation	1,443	—	—	1,443
Stock-based compensation expense	3,959	—	—	3,959
Cash dividends declared:				
Common ($0.80 per share)	—	(36,290)	—	(36,290)
Balance at December 31, 2015	$311,720	$638,367	$ 406	$ 950,493

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)
(In thousands, except share and per share data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2015	$311,720	$638,367	$ 406	$ 950,493
Net income	—	95,636	—	95,636
Other comprehensive loss, net of tax benefit	—	—	(8,534)	(8,534)
Common stock transactions:				
1,015,389 common shares purchased and retired	(26,854)	—	—	(26,854)
16,347 common shares issued	—	—	—	—
190,239 non-vested common shares issued	—	—	—	—
29,844 non-vested common shares forfeited or canceled	—	—	—	—
336,598 stock options exercised, net of 104,643 shares tendered in payment of option price and income tax withholding amounts	4,683	—	—	4,683
Tax benefit of stock-based compensation	2,146	—	—	2,146
Stock-based compensation expense	4,376	—	—	4,376
Cash dividends declared:				
Common ($0.88 per share)	—	(39,353)	—	(39,353)
Balance at December 31, 2016	$296,071	$694,650	$ (8,128)	$ 982,593

See accompanying notes to consolidated financial statements.

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

Year Ended December 31,	2016	2015	2014
Cash flows from operating activities:			
Net income	$95,636	$86,795	$84,401
Adjustments to reconcile net income from operations to net cash provided by operating activities:			
Provision for loan losses	9,991	6,822	(6,622)
Net (gain) loss on disposal of property and equipment	621	(731)	(1,256)
Depreciation and amortization	19,480	18,313	16,855
Net premium amortization on investment securities	12,520	14,880	14,690
Net gain on investment securities transactions	(330)	(137)	(61)
Net gain on sale of mortgage loans held for sale	(26,806)	(21,748)	(17,475)
Net gain on sale of OREO	(925)	(2,991)	(1,849)
Write-down of OREO and other assets pending disposal	792	1,013	326
Mortgage servicing rights impairment recovery	(35)	(97)	(136)
Deferred income tax expense	3,369	12,449	5,345
Net increase in cash surrender value of company-owned life insurance policies	(4,477)	(3,432)	(3,600)
Stock-based compensation expense	4,376	3,959	3,634
Tax benefits from stock-based compensation	2,146	1,443	2,193
Excess tax benefits from stock-based compensation	(1,566)	(1,184)	(2,205)
Originations of loans held for sale	(1,113,292)	(1,148,098)	(903,373)
Proceeds from sale of loans held for sale	1,125,365	1,164,804	923,350
Changes in operating assets and liabilities:			
Decrease (increase) in accrued interest receivable	(1,053)	(101)	470
Increase in other assets	(2,214)	(3,622)	(6,956)
Increase (decrease) in accrued interest payable	445	(1,006)	286
Increase (decrease) in accounts payable and accrued expenses	(5,973)	(11,931)	13,991
Net cash provided by operating activities	118,070	115,400	122,008
Cash flows from investing activities:			
Purchases of investment securities:			
Held-to-maturity	(18,173)	(45,179)	(21,627)
Available-for-sale	(905,940)	(474,846)	(664,821)
Proceeds from maturities, paydowns, calls and sales of investment securities:			
Held-to-maturity	112,563	118,406	47,784
Available-for-sale	814,598	648,683	613,930
Purchase of company-owned life insurance	—	(30,000)	(15,000)
Proceeds from sales of mortgage servicing rights	—	—	266
Extensions of credit to customers, net of repayments	(168,321)	(327,878)	(216,730)
Recoveries of loans charged-off	9,249	7,432	9,478
Proceeds from sales of OREO	5,325	15,644	12,381
Acquisition of bank and bank holding company, net of cash and cash equivalents, received	18,554	(1,636)	35,556
Proceeds from sale of loan production office	932	—	—
Capital expenditures, net of proceeds from sales	(11,879)	(5,965)	2,941
Net cash used in investing activities	$(143,092)	$(95,339)	$(195,842)

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

Year Ended December 31,	2016	2015	2014
Cash flows from financing activities:			
Net increase in deposits	$77,586	$19,160	$357,083
Net increase in repurchase agreements	8,871	6,385	43,892
Net increase (decrease) in short-term borrowings	4	(7)	(12,720)
Borrowings of long-term debt	150	5,103	68
Repayments of long-term debt	(65)	(16,538)	(48)
Write-off of debt issuance costs	—	7	—
Repayment of junior subordinated debentures held by subsidiary trusts	—	—	(20,439)
Proceeds from issuance of common stock	4,683	3,369	6,299
Common stock issuance costs	—	—	(298)
Excess tax benefits from stock-based compensation	1,566	1,184	2,205
Purchase and retirement of common stock	(26,854)	(20,647)	(9,739)
Dividends paid to common stockholders	(39,353)	(36,290)	(28,626)
Net cash provided by (used in) financing activities	26,588	(38,274)	337,677
Net increase (decrease) in cash and cash equivalents	1,566	(18,213)	263,843
Cash and cash equivalents at beginning of year	780,457	798,670	534,827
Cash and cash equivalents at end of year	$782,023	$780,457	$798,670
Supplemental disclosures of cash flow information:			
Cash paid during the year for income taxes	$54,419	$27,335	$26,650
Cash paid during the year for interest expense	17,200	18,933	17,736

See accompanying notes to consolidated financial statements.

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation. The Company’s consolidated financial statements include the accounts of the Parent Company and its operating subsidiaries. As of December 31, 2016, the Company had one significant subsidiary, First Interstate Bank (“FIB”). All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications, none of which were material, have been made in the consolidated financial statements for 2015 and 2014 to conform to the 2016 presentation. These reclassifications did not change previously reported net income or stockholders’ equity.

Equity Method Investments. The Company has investments in real estate joint ventures that are not consolidated because the Company does not own a majority voting interest, control the operations or receive a majority of the losses or earnings of the joint venture. These joint ventures are accounted for using the equity method of accounting whereby the Company initially records its investment at cost (or fair value at the date of acquisition) and then subsequently adjusts the carrying value for the Company’s proportionate share of distributions and earnings or losses of the joint ventures.

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

The Company has equity investments in variable interest Certified Development Entities (“CDEs”) which have received allocations under the New Markets Tax Credits Program. The underlying activities of the CDEs are community development projects designed primarily to promote community welfare, such as economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents. The maximum exposure to loss in the CDEs is the amount of equity invested and credit extended by the Company. The Company has credit protection in the form of indemnification agreements, guarantees, and collateral arrangements. As the primary beneficiary of these variable interest entities, the Company’s consolidated financial statements include the assets, liabilities, and results of operations of the CDEs. The primary activities of the CDEs are recognized in interest and fees on loans, other non-interest income and long-term debt interest expense on the Company’s statements of operations. Related cash flows are recognized in loans originated, principal collected on loans and advances or repayments of long-term debt.

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

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
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(Dollars in thousands, except share and per share data)

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

Cash and Cash Equivalents. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold for one day periods and interest bearing deposits in banks with original maturities of less than three months. As of December 31, 2016 and 2015, the Company had cash of $625,269 and $636,345, respectively, on deposit with the Federal Reserve Bank. In addition, the Company maintained compensating balances with the Federal Reserve Bank of approximately $19,327 and $10,031 as of December 31, 2016 and 2015, respectively, to reduce service charges for check clearing services.

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

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

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

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

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect, on a timely basis, all amounts due according to the contractual terms of the loan's original agreement. The amount of the impairment is measured using cash flows discounted at the loan's effective interest rate, except when it is determined that the primary source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by anticipated selling costs, is used to measure impairment. The Company considers impaired loans to include all loans, except consumer loans, that are risk rated as

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

doubtful or on which interest accrual has been discontinued or that have been renegotiated in a troubled debt restructuring. Interest payments received on impaired loans are applied based on whether they are on accrual or non-accrual status. Interest income recognized by the Company on impaired loans primarily relates to loans modified in troubled debt restructurings that remain on accrual status. Interest payments received on non-accrual impaired loans are applied to principal. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due.

Loans acquired through the completion of a transfer, including loans acquired in business combinations, that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the recorded fair value of the loan, or the “accretable yield,” is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “nonaccretable difference,” are not recognized as a yield adjustment, a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition.

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

Loans held for sale include residential mortgage loans originated for immediate sale. Beginning January 1, 2016, the Company elected to account for loans held for sale using the fair value option. Under the fair value option, net loan origination fees are recognized in non-interest income at the time of origination. Subsequent changes in the estimated fair values of loans held for sale are recorded as unrealized gains and losses in non-interest income. Prior to 2016, the Company carried loans held for sale at the lower of aggregate cost or estimated market value. Estimated fair values of loans held for sale are determined based upon current secondary market prices for loans with similar coupons, maturities and credit quality, or in the case of committed loan, on current delivery prices. Gains and losses on loan held for sale are recognized based on the difference between the net sales proceeds, including the estimated value associated with servicing assets or liabilities, and the net carrying value of the loans sold. Adjustments to reflect unrealized gains and losses resulting from changes in fair value of loans held for sale, as well as realized gains and losses on the sale of loans, are included in non-interest income - mortgage banking revenues on the accompanying consolidated statements of income. Loans held for sale were $61,794 and $52,875 as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, the Company had no recorded investments in consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings were in process.

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

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, if any.

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

Core Deposit Intangibles. Core deposit intangibles represent the intangible value of depositor relationships resulting from deposit liabilities assumed and are amortized using an accelerated method based on the estimated weighted average useful lives of the related deposits. Accumulated core deposit intangibles amortization was $31,467 as of December 31, 2016 and $28,040 as of December 31, 2015. Amortization expense related to core deposit intangibles recorded as of December 31, 2016 is expected to total $2,407, $1,833, $1,565, $1,297, $1,029, and $1,517 in 2017, 2018, 2019, 2020, 2021, and thereafter, respectively.

Mortgage Servicing Rights. The Company recognizes the rights to service mortgage loans for others, whether acquired or internally originated. Mortgage servicing rights are initially recorded at fair value based on comparable market data and are amortized in proportion to and over the period of estimated net servicing income. Mortgage servicing rights are evaluated quarterly for impairment by discounting the expected future cash flows, taking into consideration the estimated level of prepayments based on current industry expectations and the predominant risk characteristics of the underlying loans including loan type, note rate and loan term. Impairment adjustments, if any, are recorded through a valuation allowance.

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

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

Deferred Compensation Plan. The Company has a deferred compensation plan for the benefit of certain highly compensated officers and directors of the Company. The plan allows for discretionary employer contributions in excess of tax limits applicable to the Company's 401(k) and profit sharing plans and the deferral of salary, short-term incentives or director fees subject to certain limitations. Deferred compensation plan assets and liabilities are included in the Company's consolidated balance sheets at fair value. Deferred compensation plan income or expense, consisting solely of net realized and unrealized holding gains and losses on deferred compensation plan assets, is recorded as other income in the Company's consolidated statements of income.

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As of December 31, 2016 and 2015, deferred compensation plan assets were $10,627 and $10,149, respectively. Corresponding deferred compensation plan liabilities were $10,627 and $10,149 as of December 31, 2016 and 2015, respectively. Realized and unrealized holding gains or losses on deferred compensation plan assets, net of the related employees benefits expense, are included in other non-interest income the Company's consolidated statements of income.

Impairment of Long-Lived Assets. Long-lived assets, including premises and equipment and certain identifiable intangibles, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The amount of the impairment loss, if any, is based on the asset’s fair value. Impairment losses of $171, $806 and $102 were recognized in other non-interest expense in 2016, 2015 and 2014, respectively.

Other Real Estate Owned. Real estate acquired in satisfaction of loans is initially carried at current fair value less estimated selling costs. Any excess of loan carrying value over the fair value of the real estate acquired is recorded as a charge to the allowance for loan losses. Subsequent declines in fair value less estimated selling costs are included in OREO expense. Subsequent increases in fair value less estimated selling costs are recorded as a reduction in OREO expense to the extent of recognized losses. Operating expenses, net of related income, and gains or losses on sales are included in OREO expense. Write-downs of $603, $207 and $224 were recorded in 2016, 2015 and 2014, respectively. The carrying value of foreclosed residential real estate properties included in other real estate owned was $2,282 as of December 31, 2016, and $1,686 as of December 31, 2015.

Restricted Equity Securities. The Company, as a member of the Federal Reserve Bank and the Federal Home Loan Bank (“FHLB”), is required to maintain investments in each of the organization’s capital stock. As of December 31, 2016, restricted equity securities of the Federal Reserve Bank and the FHLB of $16,353 and $10,111, respectively, were included in other assets at cost. As of December 31, 2015, restricted equity securities of the Federal Reserve Bank and the FHLB were $16,421 and $10,135, respectively. No ready market exists for these restricted equity securities, and they have no quoted market values. Restricted equity securities are periodically reviewed for impairment based on ultimate recovery of par value. The determination of whether a decline affects the ultimate recovery of par value is influenced by the significance of the decline compared to the cost basis of the restricted equity securities, the length of time a decline has persisted, the impact of legislative and regulatory changes on the issuing organizations and the liquidity positions of the issuing organizations. Based on management’s assessment, no impairment losses were recorded on restricted equity securities during 2016, 2015 or 2014.

Derivatives and Hedging Activities. For asset and liability management purposes, the Company has entered into interest rate swap contracts to hedge against changes in forecasted cash flows due to interest rate exposures. Interest rate swaps are contracts in which a series of interest payments are exchanged over a prescribed period. The notional amount upon which the interest payments are based is not exchanged. The swap agreements are derivative instruments and convert a portion of the Company’s forecasted variable rate debt to a fixed rate (i.e., cash flow hedge) over the payment term of the interest rate swap. The effective portion of the gain or loss on cash flow hedging instruments is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same period during which the transaction affects earnings. The ineffective portion of the gain or loss on derivative instruments, if any, is recognized in earnings. The Company does not enter into interest rate swap agreements for trading or speculative purposes.

The Company also enters into certain interest rate swap contracts that are not designated as hedging instruments. These derivative contracts relate to transactions in which the Company enters into an interest rate swap with a customer while at the same time entering into an offsetting interest rate swap with a third party financial institution. Because the Company acts as an intermediary for the customer, changes in the fair value of the underlying derivative contracts for the most part offset each other and do not significantly impact the Company's results of operations.

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In the normal course of business, the Company enters into interest rate lock commitments to finance residential mortgage loans that are not designated as accounting hedges. These commitments, which contain fixed expiration dates, offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the timeframe established by the Company. Interest rate risk arises on these commitments and subsequently closed loans if interest rates change between the time of the interest rate lock and the delivery of the loan to the investor. Loan commitments related to residential mortgage loans intended to be sold are considered derivatives and are marked to market through earnings. In addition to the effects of the change in market interest rate, the fair value measurement of the derivative also contemplates the expected cash flows to be received from the counterparty from the future sale of the loan.

The Company sells residential mortgage loans on either a best efforts or mandatory delivery basis. The Company mitigates the effect of the interest rate risk inherent in providing interest rate lock commitments by entering into forward loan sales contracts. During the interest rate lock commitment period, these forward loan sales contracts are marked to market through earnings and are not designated as accounting hedges. Exclusive of the fair value component associated with the projected cash flows from the loan delivery to the investor, the changes in fair value related to movements in market rates of the interest rate lock commitments and the forward loan sales contracts generally move in opposite directions, and the net impact of changes in these valuations on net income during the loan commitment period is generally inconsequential. When the loan is funded to the borrower, the interest rate lock commitment derivative expires and the Company records a loan held for sale. The forward loan sales contract acts as a hedge against the variability in cash to be received from the loan sale.

The changes in measurement of the estimated fair values of the interest rate lock commitments and forward loan sales contracts are included in mortgage banking revenues in the accompanying consolidated statements of income.

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

Earnings Per Common Share. Basic and diluted earnings per common share are calculated using a two-class method. Under the two-class method, basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding outstanding participating securities. Participating securities include non-vested performance restricted stock awards granted prior to 2014 and all non-vested time restricted stock awards. Diluted earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding determined for the basic earnings per share calculation plus the dilutive effect of stock compensation using the treasury stock method.

Income Taxes. The Parent Company and its subsidiaries have elected to be included in a consolidated federal income tax return. For state income tax purposes, the combined taxable income of the Parent Company and its subsidiaries is apportioned among the states in which operations take place. Federal and state income taxes attributable to the subsidiaries, computed on a separate return basis, are paid to or received from the Parent Company.

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

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within

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income tax expense in the consolidated statements of income. With few exceptions, the Company is no longer subject to U.S. federal and state examinations by tax authorities for years before 2012. The Company had accrued interest of $14, $235 and $206 as of December 31, 2016, 2015 and 2014. The Company had no penalties as of December 31, 2016, 2015 or 2014.

Comprehensive Income. Comprehensive income includes net income, as well as other changes in stockholders' equity that result from transactions and economic events other than those with shareholders. In addition to net income, the Company's comprehensive income includes the after tax effect of changes in unrealized gains and losses on available-for-sale investment securities and derivatives designated as cash flow hedges, changes in the unamortized gain or loss on available-for-sale investment securities transferred to held-to-maturity and changes in net actuarial gains and losses on defined benefit post-retirement benefits plans.

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

Advertising Costs. Advertising costs are expensed as incurred. Advertising expense was $2,819, $3,452, and $3,734 in 2016, 2015 and 2014, respectively.

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

Stock-Based Compensation. Compensation cost for all stock-based awards is measured at fair value on the date of grant and is recognized over the requisite service period for awards expected to vest. Stock-based compensation expense of $4,376, $3,959 and $3,634 for the years ended December 31, 2016, 2015 and 2014, respectively, is included in benefits expense in the Company's consolidated statements of income. Related income tax benefits recognized for the years ended December 31, 2016, 2015 and 2014 were $2,146, $1,443 and $2,193, respectively.

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

(2) ACQUISITIONS

Cascade Bancorp. On November 17, 2016, the Company entered into an agreement and plan of merger (the "Agreement") to acquire all of the outstanding stock of Cascade Bancorp, parent company of Bank of the Cascades, an Oregon-based community bank with 50 banking offices across Oregon, Idaho and Washington. Under the terms of the

Agreement, each outstanding share of Cascade Bancorp will convert into the right to receive 0.14864 shares of the Company's Class A common stock and $1.91 in cash. Based on the closing price of the Company's Class A common stock on December 31, 2016, the merger consideration represents an aggregate purchase price of approximately $627,991. As of December 31, 2016, Cascade had total assets of $3,079,058, deposits of $2,661,812 and net loans of $2,077,358. Upon completion of the merger, which is expected to close during third quarter 2017 subject to regulatory and shareholder approvals, the Company will become a regional community bank with over $12 billion in total assets and a geographic footprint that will span Montana, Wyoming, South Dakota, Idaho, Oregon and Washington.

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Flathead Bank of Bigfork. On April 6, 2016, the Company's bank subsidiary entered into a stock purchase agreement to acquire all of the outstanding stock of Flathead Bank of Bigfork ("Flathead"), a Montana-based bank wholly owned by Flathead Holding Company. The acquisition was completed as of August 12, 2016 for cash consideration of $34,100. The acquisition allowed the Company to gain market share in several of its current market areas and expand its market presence in Montana.

The assets and liabilities of Flathead were recorded in the Company's consolidated financial statements at their estimated fair values as of the acquisition date. The excess value of the consideration paid over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Flathead and the Company.

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

As of August 12, 2016	As Recorded by Flathead	Fair Value Adjustments		As Recorded by the Company
Assets acquired:				
Cash and cash equivalents	$ 52,653	$ —		$ 52,653
Investment securities	99,801	1,315	(1)	101,116
Loans	87,181	(3,833)	(2)	83,348
Allowance for loan losses	(1,567)	1,567	(3)	—
Premises and equipment	4,529	891	(4)	5,420
Core deposit intangible assets	—	2,486	(5)	2,486
Company-owned life insurance	6,386	—		6,386
Other assets	5,200	(2,373)	(6)	2,827
Total assets acquired	254,183	53		254,236
Liabilities assumed:				
Deposits	209,673	(86)	(7)	209,587
Repurchase agreements	18,050	—		18,050
Other liabilities	838	—		838
Total liabilities assumed	228,561	(86)		228,475
Net assets acquired	$ 25,622	$ 139		25,761
Cash consideration paid				34,100
Goodwill				$ 8,339

Explanation of fair value adjustments:

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

(2) Write down of the book value of loans to their estimated fair values. The fair value of loans was estimated using cash flow projections based on the remaining maturity and repricing terms, adjusted for estimated future credit losses and prepayments and discounted to present value using a risk-adjusted market rate for similar loans. The fair value of collateral dependent loans acquired with deteriorated credit quality was estimated based on the Company's

analysis of the fair value of each loan's underlying collateral, discounted using market-derived rates of return with consideration given to the period of time and costs associated with foreclosure and disposition of the collateral.

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

(4) Write up of the book value of premises and equipment to their estimated fair values on the date of acquisition based upon appraisals obtained from an independent third party appraiser or pending buy/sell agreements.

(5) Adjustment represents the value of the core deposit base assumed in the acquisition based upon an internal valuation using industry averages obtained from an investment banking firm.

(6) Adjustment consists of the write-off of pre-existing goodwill and prepaid assets.

(7) Decrease in book value of time deposits to their estimated fair values based upon interest rates of similar time deposits with similar terms on the date of acquisition.

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Core deposit intangible assets related to the Flathead acquisition of $2,486 are being amortized using an accelerated method over the estimated useful lives of the related deposits of nine years.

In conjunction with the Flathead acquisition, the Company acquired certain loans with evidence of deterioration in credit quality and for which was probable, at acquisition, that the Company would be unable to collect all contractual amounts owed. The excess of all cash flows expected at acquisition over the initial fair value of the acquired credit-impaired loans ("accretable yield") is amortized to interest income over the expected remaining lives of the underlying loans using the effective interest method. The accretable yield will fluctuate due to changes in (i) estimated lives of underlying credit-impaired loans, (ii) assumptions regarding future principal and interest amounts collected, and (iii) indices used to fair value variable rate loans.
Information regarding loans acquired credit-impaired as of the August 12, 2016 acquisition date is as follows:

Contractually required principal and interest payments	$19,324
Contractual cash flows not expected to be collected ("non-accretable discount")	10,999
Cash flows expected to be collected	8,325
Interest component of cash flows expected to be collected ("accretable discount")	1,113
Fair value of acquired credit-impaired loans	$7,212

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

Contractually required principal and interest payments	$100,616
Contractual cash flows not expected to be collected	4,702
Fair value at acquisition	76,136

The following table presents unaudited pro forma consolidated revenues and net income as if the Flathead acquisition had occurred as of January 1, 2015.

Year ended December 31, (unaudited)	2016	2015
Interest income	$301,699	$289,330
Non-interest income	137,793	123,282
Total revenues	$439,492	$412,612
Net income	$98,674	$88,847

The unaudited pro forma net income presented in the table above for 2016 was adjusted to exclude acquisition-related costs, including change in control expenses related to employee benefit plans and legal and professional expenses, of $1,834, net of tax. Pro forma net income presented in the table above for 2015 was adjusted to include the aforementioned acquisition-related costs. The unaudited pro forma net income presented in the table above for 2016 and 2015 includes adjustments for scheduled amortization of core deposit intangible assets acquired in the acquisition. No adjustments were made for operating costs savings and other business synergies expected as a result of the acquisition, or accretion or amortization of fair value adjustments other than core deposit intangible assets.

Absarokee Bancorporation, Inc. On July 24, 2015, the Company acquired all of the outstanding stock of Absarokee Bancorporation, Inc. ("Absarokee"), a Montana-based bank holding company operating one subsidiary bank, United Bank, with branches located in three Montana communities adjacent to the Company's existing market areas. As a result of the acquisition, the Company increased its presence in the state of Montana. The Company merged United Bank with and into FIB immediately subsequent to the acquisition. The Company paid cash consideration for the acquisition of $7,234.

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The Absarokee acquisition was accounted for using the acquisition method with cash consideration funded from cash on hand. The assets and liabilities of the acquired entities were recorded in the Company's consolidated financial statements at their estimated fair values as of the acquisition dates. The excess value of the consideration paid over the fair value of assets acquired and liabilities assumed was recorded as goodwill. During 2016, the Company completed its review of Absarokee tax items and finalized the fair value of acquired deferred tax assets resulting in a $42 decrease in goodwill.

Core deposit intangible assets related to the Absarokee acquisition of $695 are being amortized using an accelerated method over the estimated useful lives of the related deposits of ten years.

Unaudited pro forma consolidated revenues and net income as if the Absarokee acquisition had occurred as of January 1, 2014, are not presented because the effect of this acquisition was not considered significant.

Goodwill arising from the Flathead and Absarokee acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the acquired entities and the Company. The Absarokee acquisition was accounted for as a tax-free exchange; therefore, goodwill recorded in conjunction with the Absarokee acquisition is not deductible for income tax purposes. The Flathead acquisition was accounted for as a deemed asset purchase; therefore, goodwill recorded in conjunction with the Flathead acquisition is deductible for income tax purposes. Fair values of assets acquired and liabilities assumed as part of the Flathead and Absarokee acquisitions were estimated using relevant market information and significant other inputs and generally fall within Levels 2 and 3 of the fair value hierarchy.

The accompanying consolidated statements of income include the results of operations of the acquired entities from their acquisition dates. The operations of Flathead and Absarokee were immediately integrated with the Company's operations and the acquired banks were merged with FIB. As such, the Company has determined it is not practical to report post-acquisition date revenues and net income of the acquired entities that were included in the Company's consolidated statements of income for the years ended December 31, 2016 and 2015.

The Company recorded third party acquisition-related costs of $2,821, $795 and $4,017 in 2016, 2015 and 2014 respectively. These costs are included in acquisition expenses in the Company's consolidated statements of income.

(3) INVESTMENT SECURITIES

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

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
U.S. Treasury notes	$3,608	$ 5	$(1)	$3,612
Obligations of U.S. government agencies	397,411	343	(6,457)	391,297
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	1,220,890	6,412	(13,601)	1,213,701
Private mortgage-backed securities	116	1	(1)	116
Other investments	2,951	21	—	2,972

Total	$1,624,976	$ 6,782	$(20,060)	$1,611,698

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December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to Maturity				
State, county and municipal securities	$ 160,192	$ 2,723	$ (542)	$ 162,373
Corporate securities	53,032	139	(211)	52,960
Obligations of U.S. government agencies	19,737	—	(162)	19,575
U.S agency residential mortgage-backed securities & collateralized mortgage obligations	279,578	7,804	(9,249)	278,133
Other investments	231	1	—	232
Total	$ 512,770	$ 10,667	$ (10,164)	$ 513,273

Gross gains of $423 and gross losses of $93 were realized on the disposition of available-for-sale securities in 2016.

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
U.S. Treasury notes	$ 3,912	$ 3	$ (4)	$ 3,911
Obligations of U.S. government agencies	521,079	712	(1,610)	520,181
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	921,699	9,448	(2,101)	929,046
Private mortgage-backed securities	156	1	(1)	156
Other investments	3,550	5	(9)	3,546
Total	$ 1,450,396	$ 10,169	$ (3,725)	$ 1,456,840

December 31, 2015	Amortized Cost