

FIRST INTERSTATE BANCSYSTEM INC  
 Form 10-Q  
 November 07, 2014

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

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934  
 For the quarterly period ended September 30, 2014  
 OR

Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
 COMMISSION FILE NUMBER 001-34653

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

|   |  |
|---|--|
| Montana<br>(State or other jurisdiction of<br>incorporation or organization)    | 81-0331430<br>(IRS Employer<br>Identification No.) |
| 401 North 31st Street, Billings, MT<br>(Address of principal executive offices) | 59116-0918<br>(Zip Code)                           |
| Registrant's telephone number, including area code: 406/255-5390                |  |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

|  |   |
|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/>   | Smaller reporting company <input type="checkbox"/>    |

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

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

|   |            |
|---|------------|
| September 30, 2014 – Class A common stock | 21,747,983 |
| September 30, 2014 – Class B common stock | 23,924,939 |



FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES  
 Quarterly Report on Form 10-Q  
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Table of ContentsFIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

|  | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Cash and due from banks  | \$142,119             | \$141,663            |
| Federal funds sold   | 737                   | 672                  |
| Interest bearing deposits in banks   | 677,107               | 392,492              |
| Total cash and cash equivalents  | 819,963               | 534,827              |
| Investment securities:   |                       |                      |
| Available-for-sale   | 1,586,503             | 1,947,706            |
| Held-to-maturity (estimated fair values of \$588,032 and \$205,926 at September 30, 2014 and December 31, 2013, respectively)  | 583,271               | 203,837              |
| Total investment securities  | 2,169,774             | 2,151,543            |
| Loans held for investment  | 4,791,444             | 4,303,992            |
| Mortgage loans held for sale   | 62,938                | 40,861               |
| Total loans  | 4,854,382             | 4,344,853            |
| Less allowance for loan losses   | 74,231                | 85,339               |
| Net loans  | 4,780,151             | 4,259,514            |
| Goodwill   | 204,646               | 183,673              |
| Premises and equipment, net of accumulated depreciation  | 207,181               | 179,690              |
| Company-owned life insurance   | 152,761               | 122,175              |
| Other real estate owned ("OREO")   | 18,496                | 15,504               |
| Accrued interest receivable  | 30,282                | 26,450               |
| Core deposit intangibles, net of accumulated amortization  | 14,137                | 4,519                |
| Mortgage servicing rights, net of accumulated amortization and impairment reserve  | 13,894                | 13,546               |
| Deferred tax asset, net  | 1,347                 | 12,154               |
| Other assets   | 68,720                | 61,056               |
| Total assets   | \$8,481,352           | \$7,564,651          |
| Liabilities and Stockholders' Equity   |                       |                      |
| Deposits:  |                       |                      |
| Non-interest bearing   | \$1,637,151           | \$1,491,683          |
| Interest bearing   | 5,322,348             | 4,642,067            |
| Total deposits   | 6,959,499             | 6,133,750            |
| Securities sold under repurchase agreements  | 432,478               | 457,437              |
| Accounts payable and accrued expenses  | 56,210                | 47,523               |
| Accrued interest payable   | 5,569                 | 4,963                |
| Long-term debt   | 36,882                | 36,917               |
| Other borrowed funds   | 1,934                 | 3                    |
| Subordinated debentures held by subsidiary trusts  | 102,916               | 82,477               |
| Total liabilities  | 7,595,488             | 6,763,070            |
| Stockholders' equity:  |                       |                      |
| Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued and outstanding as of September 30, 2014 or December 31, 2013 | —                     | —                    |

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|  |             |             |
|--|-------------|-------------|
| Common stock                               | 321,132     | 285,535     |
| Retained earnings                          | 572,362     | 532,087     |
| Accumulated other comprehensive loss, net  | (7,630 )    | (16,041 )   |
| Total stockholders' equity                 | 885,864     | 801,581     |
| Total liabilities and stockholders' equity | \$8,481,352 | \$7,564,651 |

See accompanying notes to unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

|   | Three Months Ended September |          | Nine Months Ended September |           |
|---|------------------------------|----------|-----------------------------|-----------|
|   | 30,                          |          | 30,                         |           |
|   | 2014                         | 2013     | 2014                        | 2013      |
| Interest income:  |                              |          |                             |           |
| Interest and fees on loans                                    | \$61,007                     | \$54,901 | \$170,290                   | \$165,247 |
| Interest and dividends on investment securities:              |                              |          |                             |           |
| Taxable   | 7,259                        | 7,660    | 22,208                      | 23,377    |
| Exempt from federal taxes                                     | 1,085                        | 1,153    | 3,265                       | 3,594     |
| Interest on deposits in banks                                 | 374                          | 207      | 830                         | 717       |
| Interest on federal funds sold                                | 3                            | 8        | 7                           | 17        |
| Total interest income   | 69,728                       | 63,929   | 196,600                     | 192,952   |
| Interest expense:   |                              |          |                             |           |
| Interest on deposits  | 3,487                        | 3,821    | 10,238                      | 12,214    |
| Interest on securities sold under repurchase agreements       | 52                           | 58       | 181                         | 232       |
| Interest on other borrowed funds                              | 27                           | —        | 27                          | —         |
| Interest on long-term debt                                    | 482                          | 487      | 1,431                       | 1,450     |
| Interest on preferred stock pending redemption                | —                            | —        | —                           | 159       |
| Interest on subordinated debentures held by subsidiary trusts | 598                          | 607      | 1,778                       | 1,904     |
| Total interest expense  | 4,646                        | 4,973    | 13,655                      | 15,959    |
| Net interest income   | 65,082                       | 58,956   | 182,945                     | 176,993   |
| Provision for loan losses                                     | 261                          | (3,000)  | (6,740)                     | (2,125)   |
| Net interest income after provision for loan losses           | 64,821                       | 61,956   | 189,685                     | 179,118   |
| Non-interest income:  |                              |          |                             |           |
| Other service charges, commissions and fees                   | 10,458                       | 9,286    | 29,313                      | 26,519    |
| Income from the origination and sale of loans                 | 7,346                        | 7,934    | 18,386                      | 28,652    |
| Wealth management revenues                                    | 5,157                        | 4,581    | 14,221                      | 12,735    |
| Service charges on deposit accounts                           | 4,331                        | 4,360    | 12,135                      | 12,751    |
| Investment securities gains (losses), net                     | (8)                          | 30       | 80                          | 26        |
| Other income  | 2,079                        | 1,416    | 5,905                       | 5,322     |
| Total non-interest income                                     | 29,363                       | 27,607   | 80,040                      | 86,005    |
| Non-interest expense:   |                              |          |                             |           |
| Salaries and wages  | 25,914                       | 22,806   | 72,796                      | 69,681    |
| Employee benefits   | 7,841                        | 7,328    | 23,318                      | 23,049    |
| Occupancy, net  | 4,534                        | 4,292    | 13,026                      | 12,381    |
| Furniture and equipment                                       | 3,338                        | 3,147    | 9,696                       | 9,362     |
| Outsourced technology services                                | 2,346                        | 2,295    | 6,955                       | 6,647     |
| OREO expense, net of income                                   | (58)                         | 18       | (211)                       | 999       |
| Professional fees   | 1,233                        | 1,135    | 3,881                       | 3,398     |
| FDIC insurance premiums                                       | 1,172                        | 1,205    | 3,381                       | 3,938     |
| Mortgage servicing rights amortization                        | 591                          | 629      | 1,774                       | 2,187     |
| Mortgage servicing rights impairment recovery                 | (61)                         | (62)     | (117)                       | (121)     |
| Core deposit intangibles amortization                         | 688                          | 355      | 1,396                       | 1,064     |

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|                                   |          |          |          |          |
|-----------------------------------|----------|----------|----------|----------|
| Other expenses                    | 12,368   | 9,431    | 33,672   | 31,699   |
| Non-core expenses                 | 5,052    | —        | 5,649    | —        |
| Total non-interest expense        | 64,958   | 52,579   | 175,216  | 164,284  |
| Income before income tax expense  | 29,226   | 36,984   | 94,509   | 100,839  |
| Income tax expense                | 10,071   | 13,172   | 32,884   | 35,478   |
| Net income                        | \$19,155 | \$23,812 | \$61,625 | \$65,361 |
| Basic earnings per common share   | \$0.43   | \$0.54   | \$1.39   | \$1.50   |
| Diluted earnings per common share | \$0.42   | \$0.54   | \$1.37   | \$1.49   |

See accompanying notes to unaudited consolidated financial statements.



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

(In thousands)

(Unaudited)

|   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|----------|------------------------------------|-----------|
|   | 2014                                | 2013     | 2014                               | 2013      |
| Net income  | \$19,155                            | \$23,812 | \$61,625                           | \$65,361  |
| Other comprehensive income (loss), before tax:                            |                                     |          |                                    |           |
| Investment securities available-for sale:                                 |                                     |          |                                    |           |
| Change in net unrealized gains/losses during period                       | (3,322                              | ) 1,794  | 13,844                             | (39,547 ) |
| Reclassification adjustment for net (gains) losses included in income     | 8                                   | (30 )    | (80 )                              | (26 )     |
| Defined benefit post-retirement benefits plans:                           |                                     |          |                                    |           |
| Change in net actuarial loss  | 33                                  | 33       | 103                                | 102       |
| Other comprehensive income (loss), before tax                             | (3,281                              | ) 1,797  | 13,867                             | (39,471 ) |
| Deferred tax benefit (expense) related to other comprehensive income/loss | 1,291                               | (707 )   | (5,456 )                           | 15,532    |
| Other comprehensive income (loss), net of tax                             | (1,990                              | ) 1,090  | 8,411                              | (23,939 ) |
| Comprehensive income, net of tax  | \$17,165                            | \$24,902 | \$70,036                           | \$41,422  |
| See accompanying notes to unaudited consolidated financial statements.    |                                     |          |                                    |           |

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

(In thousands, except share and per share data)

(Unaudited)

|   | Common<br>stock | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total<br>stockholders'<br>equity |
|---|-----------------|----------------------|--|----------------------------------|
| Balance at December 31, 2013  | \$285,535       | \$532,087            | \$(16,041 )  | \$801,581                        |
| Net income  | —               | 61,625               | —  | 61,625                           |
| Other comprehensive income, net of tax expense  | —               | —                    | 8,411  | 8,411                            |
| Common stock transactions:  |                 |                      |  |                                  |
| 387,967 common shares purchased and retired   | (9,736 )        | —                    | —  | (9,736 )                         |
| 1,402,811 common shares issued  | 35,972          | —                    | —  | 35,972                           |
| 147,876 non-vested common shares issued   | —               | —                    | —  | —                                |
| 17,741 non-vested common shares forfeited   | —               | —                    | —  | —                                |
| 372,880 stock options exercised, net of 166,780 shares<br>tendered in payment of option price and income tax<br>withholding amounts | 4,914           | —                    | —  | 4,914                            |
| Tax benefit of stock-based compensation   | 1,541           | —                    | —  | 1,541                            |
| Stock-based compensation expense  | 2,906           | —                    | —  | 2,906                            |
| Common cash dividend declared (\$0.48 per share)  | —               | (21,350 )            | —  | (21,350 )                        |
| Balance at September 30, 2014   | \$321,132       | \$572,362            | \$(7,630 )   | \$885,864                        |
| Balance at December 31, 2012  | \$271,335       | \$463,860            | \$15,991   | \$751,186                        |
| Net income  | —               | 65,361               | —  | 65,361                           |
| Other comprehensive loss, net of tax benefit  | —               | —                    | (23,939 )  | (23,939 )                        |
| Common stock transactions:  |                 |                      |  |                                  |
| 25,667 common shares purchased and retired  | (448 )          | —                    | —  | (448 )                           |
| 26,096 common shares issued   | 543             | —                    | —  | 543                              |
| 120,873 non-vested common shares issued   | —               | —                    | —  | —                                |
| 10,517 non-vested common shares forfeited   | —               | —                    | —  | —                                |
| 688,864 stock options exercised, net of 336,442 shares<br>tendered in payment of option price and income tax<br>withholding amounts | 8,137           | —                    | —  | 8,137                            |
| Tax benefit of stock-based compensation   | 1,578           | —                    | —  | 1,578                            |
| Stock-based compensation expense  | 2,207           | —                    | —  | 2,207                            |
| Cash dividends declared:  |                 |                      |  |                                  |
| Common (\$0.27 per share)   | —               | (11,765 )            | —  | (11,765 )                        |
| Balance at September 30, 2013   | \$283,352       | \$517,456            | \$(7,948 )   | \$792,860                        |

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)

(Unaudited)

|   | Nine Months Ended September 30, |              |
|---|---------------------------------|--------------|
|   | 2014                            | 2013         |
| Cash flows from operating activities:   |                                 |              |
| Net income  | \$61,625                        | \$65,361     |
| Adjustments to reconcile net income to net cash provided by operating activities:       |                                 |              |
| Provision for loan losses   | (6,740 )                        | (2,125 )     |
| Net gain on disposal of premises and equipment  | (68 )                           | (224 )       |
| Depreciation and amortization   | 12,168                          | 12,293       |
| Net premium amortization on investment securities                                       | 10,784                          | 11,426       |
| Net gain on investment securities transactions  | (80 )                           | (26 )        |
| Net gain on sale of mortgage loans held for sale  | (12,947 )                       | (20,376 )    |
| Net gain on sale of OREO  | (551 )                          | (3,195 )     |
| Write-downs of OREO and other assets pending disposal                                   | 87                              | 3,180        |
| Net reversal of impairment of mortgage servicing rights                                 | (117 )                          | (121 )       |
| Deferred income tax expense   | 8,537                           | 6,302        |
| Net (increase) decrease in cash surrender value of company-owned life insurance         | (2,540 )                        | 28           |
| Stock-based compensation expense  | 2,906                           | 2,207        |
| Tax benefits from stock-based compensation expense                                      | 1,541                           | 1,578        |
| Excess tax benefits from stock-based compensation expense                               | (1,503 )                        | (1,488 )     |
| Originations of mortgage loans held for sale  | (682,011 )                      | (1,387,785 ) |
| Proceeds from sales of mortgage loans held for sale                                     | 676,061                         | 1,419,539    |
| Changes in operating assets and liabilities:  |                                 |              |
| Increase in interest receivable   | (2,749 )                        | (1,515 )     |
| Decrease (increase) in other assets   | (1,585 )                        | 9,434        |
| Increase (decrease) in accrued interest payable   | 22                              | (1,135 )     |
| Increase (decrease) in accounts payable and accrued expenses                            | 1,321                           | (2,622 )     |
| Net cash provided by operating activities   | 64,161                          | 110,736      |
| Cash flows from investing activities:   |                                 |              |
| Purchases of investment securities:   |                                 |              |
| Held-to-maturity  | (10,431 )                       | (13,915 )    |
| Available-for-sale  | (322,838 )                      | (564,448 )   |
| Proceeds from maturities, pay-downs and sales of investment securities:                 |                                 |              |
| Held-to-maturity  | 29,432                          | 15,818       |
| Available-for-sale  | 398,383                         | 569,606      |
| Purchases of company-owned life insurance   | (15,000 )                       | —            |
| Proceeds from sales of mortgage servicing rights  | 266                             | 470          |
| Extensions of credit to customers, net of repayments                                    | (148,854 )                      | (147,826 )   |
| Recoveries of loans charged-off   | 7,323                           | 9,434        |
| Proceeds from sales of OREO   | 5,877                           | 25,185       |
| Acquisition of bank and bank holding company, net of cash and cash equivalents received | 35,556                          | —            |
| Capital expenditures, net of sales  | (6,599 )                        | (2,489 )     |
| Net cash used in investing activities   | \$(26,885 )                     | \$(108,165 ) |



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

(In thousands)

(Unaudited)

|  | Nine Months Ended September 30, |              |
|--|---------------------------------|--------------|
|  | 2014                            | 2013         |
| Cash flows from financing activities:                                  |                                 |              |
| Net increase (decrease) in deposits                                    | \$310,370                       | \$(131,786 ) |
| Net decrease in repurchase agreements                                  | (25,880 )                       | (77,675 )    |
| Net decrease in other borrowed funds                                   | (11,926 )                       | (22 )        |
| Repayments of long-term debt   | (35 )                           | (32 )        |
| Redemption of preferred stock  | —                               | (50,000 )    |
| Proceeds from issuance of common stock                                 | 4,914                           | 8,680        |
| Excess tax benefits from stock-based compensation expense              | 1,503                           | 1,488        |
| Purchase and retirement of common stock                                | (9,736 )                        | (448 )       |
| Dividends paid to common stockholders                                  | (21,350 )                       | (11,765 )    |
| Net cash provided by (used in) financing activities                    | 247,860                         | (261,560 )   |
| Net increase (decrease) in cash and cash equivalents                   | 285,136                         | (258,989 )   |
| Cash and cash equivalents at beginning of period                       | 534,827                         | 801,332      |
| Cash and cash equivalents at end of period                             | \$819,963                       | \$542,343    |
| Supplemental disclosures of cash flow information:                     |                                 |              |
| Cash paid during the period for income taxes                           | \$21,100                        | \$30,529     |
| Cash paid during the period for interest expense                       | 13,049                          | 17,094       |
| See accompanying notes to unaudited consolidated financial statements. |                                 |              |

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

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements of First Interstate BancSystem, Inc. and subsidiaries (the "Company") contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the financial position of the Company at September 30, 2014 and December 31, 2013, and the results of operations for each of the three and nine month periods ended and cash flows for each of the nine month periods ended September 30, 2014 and 2013 in conformity with U.S. generally accepted accounting principles. The balance sheet information at December 31, 2013 is derived from audited consolidated financial statements. Certain reclassifications, none of which were material, have been made to conform prior year financial statements to the September 30, 2014 presentation. These reclassifications did not change previously reported net income or stockholders' equity.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

(2) Acquisition

On February 10, 2014, the Company entered into an agreement and plan of merger to acquire all of the outstanding stock of Mountain West Financial Corp ("MWFC"), a Montana-based bank holding company that operates one wholly-owned subsidiary bank, Mountain West Bank, NA ("MWB"), with branches located in five of the Company's current market areas in Montana. The acquisition was completed on July 31, 2014, and the Company merged MWB with its existing bank subsidiary, First Interstate Bank ("FIB"), on October 17, 2014. The acquisition allowed the Company to gain market share in several of its current market areas. The Company also expects to benefit from future cost savings related to the merger of MWB with FIB.

Under the terms of the agreement and plan of merger, each outstanding share of Mountain West common stock was canceled and converted into the right to receive 0.2552 shares of the Company's Class A common stock plus \$7.125 in cash, or, at the stockholder's election, an amount in all cash or all stock intended to be substantially equal in value to the combination of stock and cash merger consideration described above. Consideration for the acquisition of \$74,451 consisted of cash of \$38,479 and the issuance of 1,378,230 shares of the Company's Class A common stock valued at \$26.10 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock market on the acquisition date. The acquisition was accounted for using the acquisition method with the cash portion of the purchase price funded from cash on hand.

The assets and liabilities of MWFC 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. This acquisition was accounted for as a tax-free exchange; therefore, goodwill recorded in conjunction with this acquisition is not deductible for income tax purposes.

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

The following table summarized the consideration paid, fair values of MWFC assets acquired and liabilities assumed and the resulting goodwill. All amounts reported are provisional pending completion of review of valuations obtained from third parties.

| As of July 31, 2014                               | As Recorded<br>by MWFC | Fair Value<br>Adjustments | As Recorded<br>by the Company |
|---|------------------------|---------------------------|-------------------------------|
| Assets acquired:                                  |                        |                           |                               |
| Cash and cash equivalents                         | \$74,035               | \$—                       | \$74,035                      |
| Investment securities                             | 104,945                | (34)                      | (1) 104,911                   |
| Loans   | 378,558                | (18,286)                  | (2) 360,272                   |
| Allowance for loan losses                         | (11,598)               | )11,598                   | (3) —                         |
| Premises and equipment                            | 35,283                 | (5,685)                   | (4) 29,598                    |
| Company-owned life insurance                      | 13,046                 | —                         | 13,046                        |
| Deferred tax asset, net                           | 6,491                  | 1,461                     | (5) 7,952                     |
| Core deposit intangible                           | —                      | 11,014                    | (6) 11,014                    |
| Other assets                                      | 16,559                 | (5,300)                   | (7) 11,259                    |
| Total assets acquired                             | 617,319                | (5,232)                   | ) 612,087                     |
| Liabilities assumed:                              |                        |                           |                               |
| Deposits  | 515,538                | (159)                     | (8) 515,379                   |
| Other liabilities                                 | 20,501                 | 2,290                     | (9) 22,791                    |
| Subordinated debentures held by subsidiary trusts | 20,439                 | —                         | (10) 20,439                   |
| Total liabilities assumed                         | 556,478                | 2,131                     | 558,609                       |
| Net assets acquired                               | \$60,841               | \$(7,363)                 | ) 53,478                      |
| Consideration paid:                               |                        |                           |                               |
| Cash  |                        |                           | 38,479                        |
| Class A common stock                              |                        |                           | 35,972                        |
| Total consideration                               |                        |                           | 74,451                        |
| Goodwill  |                        |                           | \$20,973                      |

## Explanation of fair value adjustments:

- Write down of the book value of investment securities to their estimated fair values on the date of acquisition based upon quotes obtained from an independent third party pricing service.  
Write down of the book value of loans to their estimated fair values. Except for collateral dependent loans acquired with deteriorated credit quality, 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 the 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.
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- (3) Adjustment to remove the MWB 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 down of the book value of premises and equipment to their estimated fair values based upon appraisals obtained from an independent third party appraiser.
- (5) Adjustment represents the net deferred tax assets resulting from fair value adjustments related to acquired assets, assumed liabilities, core deposit intangible assets and other purchase accounting adjustments.



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- (6) Adjustment represents the value of the core deposit base assumed in the acquisition based upon a valuation obtained from an independent third party valuation expert.
- (7) Adjustment consists of a reduction in the value of equity method investments and accrued interest receivable and the write-off of federal and state income taxes receivable, pre-existing goodwill and computer software costs.
- (8) Decrease in book value of time deposits to their estimated fair values based upon interest rates of similar time deposits with similar terms on the date of acquisition.
- (9) Adjustment represents decrease in the book value of Federal Home Loan Bank borrowings to their estimated fair market values based upon interest interest rates of similar advances with similar characteristics on the date of acquisition.
- (10) Recorded value of junior subordinated debentures held by subsidiary trusts approximates fair value as of the acquisition date due to the short-term nature of the instruments. The Company intends to redeem these debentures in December 2014.

The core deposit intangible asset of \$11,014 is being amortized using an accelerated method over the estimated useful lives of the related deposits of ten years.

The Company recorded third party acquisition-related costs of \$1,053 and \$1,649 during the three and nine months ended September 30, 2014. These costs are included in non-core expenses in the Company's consolidated statements of income.

The Company acquired certain loans that are subject to Accounting Standards Codification ("ASC") Topic 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality." ASC Topic 310-30 provides recognition, measurement and disclosure guidance for acquired loans that have evidence of deterioration in credit quality since origination for which is it probable, at acquisition, the Company will be unable to collect all contractual amounts owned. For loans that meet the criteria stipulated in ASC Topic 310-30, the excess of all cash flows expected at acquisition over the initial fair value of the loans acquired ("accretable yield") is amortized to interest income over the expected remaining lives of the underlying loans using the effective interest method. The accretable yield will fluctuate due to changes in (i) estimated lives of underling credit-impaired loans, (ii) assumptions regarding future principal and interest amounts collected, and (iii) indices used to fair value variable rate loans. Information regarding acquired credit-impaired loans as of the July 31, 2014 acquisition date is as follows:

|   |           |
|---|-----------|
| Contractually required principal and interest payments                            | \$112,882 |
| Contractual cash flows not expected to be collected ("non-accretable discount")   | 74,760    |
| Cash flows expected to be collected   | 38,122    |
| Interest component of cash flows expected to be collected ("accretable discount") | 5,233     |
| Fair value of acquired credit-impaired loans                                      | \$32,889  |

The accompanying consolidated statements of income for the three and nine months ended September 30, 2014 include the results of operations of the acquired entity from the July 31, 2014 acquisition date. Had the acquisition been completed as of January 1, 2014, the Company's consolidated revenues and net income, on a pro forma basis, would have been \$101,369 and \$18,730, respectively, for the three months ended September 30, 2014, and \$293,258 and \$62,913, respectively, for the nine months ended September 30, 2014. Change in control expenses related to employee benefit plans, stock option cancellation fees and legal and professional expenses related to the acquisition activities of the acquired entity aggregating \$2,441, net of income taxes, have been excluded from pro forma net income.



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## (3) Investment Securities

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

| September 30, 2014   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| Available-for-Sale:  |                   |                              |                               |                            |
| Obligations of U.S. government agencies  | \$733,144         | \$1,193                      | \$(5,840)                     | )\$728,497                 |
| U.S. agency residential mortgage-backed securities & collateralized mortgage obligations | 851,119           | 11,152                       | (4,609)                       | )857,662                   |
| Private mortgage-backed securities   | 340               | 5                            | (1)                           | )344                       |
| Total  | \$1,584,603       | \$12,350                     | \$(10,450)                    | )\$1,586,503               |
| September 30, 2014   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Held-to-Maturity:  |                   |                              |                               |                            |
| State, county and municipal securities   | \$189,919         | \$6,260                      | \$(454)                       | )\$195,725                 |
| Corporate securities   | 21,860            | 82                           | —                             | )21,942                    |
| U.S. agency residential mortgage-backed securities & collateralized mortgage obligations | 370,933           | 1,081                        | (2,208)                       | )369,806                   |
| Other investments  | 559               | —                            | —                             | )559                       |
| Total  | \$583,271         | \$7,423                      | \$(2,662)                     | )\$588,032                 |
| December 31, 2013  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Available-for-Sale:  |                   |                              |                               |                            |
| Obligations of U.S. government agencies  | \$774,055         | \$1,432                      | \$(12,249)                    | )\$763,238                 |
| U.S. agency residential mortgage-backed securities & collateralized mortgage obligations | 1,197,295         | 11,905                       | (25,147)                      | )1,184,053                 |
| Private mortgage-backed securities   | 407               | 9                            | (1)                           | )415                       |
| Total  | \$1,971,757       | \$13,346                     | \$(37,397)                    | )\$1,947,706               |
| December 31, 2013  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Held-to-Maturity:  |                   |                              |                               |                            |
| State, county and municipal securities   | \$185,818         | \$4,043                      | \$(2,049)                     | )\$187,812                 |
| Corporate securities   | 18,019            | 103                          | (8)                           | )18,114                    |
| Total  | \$203,837         | \$4,146                      | \$(2,057)                     | )\$205,926                 |

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

|                      | Three Months Ended September 30, |      | Nine Months Ended September 30, |      |
|----------------------|----------------------------------|------|---------------------------------|------|
|                      | 2014                             | 2013 | 2014                            | 2013 |
| Gross realized gains | \$—                              | \$30 | \$243                           | \$42 |

Gross realized losses (8 ) — (163 ) (16 )

On June 27, 2014, the Company transferred available-for-sale U.S. agency residential mortgage-backed securities and collateralized mortgage obligations with amortized costs and fair values of \$396,640 and \$388,808, respectively, into the held-to-maturity category. Unrealized net losses of \$7,832 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 tables show the gross unrealized losses and fair values of investment securities, aggregated by investment category, and the length of time individual investment securities have been in a continuous unrealized loss position, as of September 30, 2014 and December 31, 2013.

|  | Less than 12 Months |                         | 12 Months or More |                         | Total       |                         |
|--|---------------------|-------------------------|-------------------|-------------------------|-------------|-------------------------|
|  | Fair Value          | Gross Unrealized Losses | Fair Value        | Gross Unrealized Losses | Fair Value  | Gross Unrealized Losses |
| September 30, 2014   |                     |                         |                   |                         |             |                         |
| Available-for-Sale:  |                     |                         |                   |                         |             |                         |
| Obligations of U.S. government agencies  | \$29,552            | \$(209)                 | \$388,327         | \$(5,631)               | \$417,879   | \$(5,840)               |
| U.S. agency residential mortgage-backed securities & collateralized mortgage obligations | 102,237             | (428)                   | 197,313           | (4,181)                 | 299,550     | (4,609)                 |
| Private mortgage-backed securities   | —                   | —                       | 91                | (1)                     | 91          | (1)                     |
| Total  | \$131,789           | \$(637)                 | \$585,731         | \$(9,813)               | \$717,520   | \$(10,450)              |
| September 30, 2014   |                     |                         |                   |                         |             |                         |
| Held-to-Maturity:  |                     |                         |                   |                         |             |                         |
| State, county and municipal securities   | \$—                 | \$—                     | \$20,586          | \$(454)                 | \$20,586    | \$(454)                 |
| Private mortgage-backed securities   | 240,262             | (2,208)                 | —                 | —                       | 240,262     | (2,208)                 |
| Total  | \$240,262           | \$(2,208)               | \$20,586          | \$(454)                 | \$260,848   | \$(2,662)               |
| December 31, 2013  |                     |                         |                   |                         |             |                         |
| Available-for-Sale:  |                     |                         |                   |                         |             |                         |
| Obligations of U.S. government agencies  | \$458,385           | \$(10,355)              | \$59,362          | \$(1,894)               | \$517,747   | \$(12,249)              |
| U.S. agency residential mortgage-backed securities & collateralized mortgage obligations | 634,199             | (17,273)                | 166,930           | (7,874)                 | 801,129     | (25,147)                |
| Private mortgage-backed securities   | —                   | —                       | 104               | (1)                     | 104         | (1)                     |
| Total  | \$1,092,584         | \$(27,628)              | \$226,396         | \$(9,769)               | \$1,318,980 | \$(37,397)              |
| December 31, 2013  |                     |                         |                   |                         |             |                         |
| Held-to-Maturity:  |                     |                         |                   |                         |             |                         |
| State, county and municipal securities   | \$37,550            | \$(1,319)               | \$14,296          | \$(730)                 | \$51,846    | \$(2,049)               |
| Corporate securities   | 7,294               | (8)                     | —                 | —                       | 7,294       | (8)                     |
| Total  | \$44,844            | \$(1,327)               | \$14,296          | \$(730)                 | \$59,140    | \$(2,057)               |

The investment portfolio is evaluated quarterly for other-than-temporary declines in the market value of each individual investment security. The Company had 174 and 229 individual investment securities that were in an unrealized loss position as of September 30, 2014 and December 31, 2013, respectively. Unrealized losses as of September 30, 2014 and December 31, 2013 related primarily to fluctuations in the current interest rates. The Company does not have the intent to sell any of the available-for-sale securities in the above table and it is not likely that the Company will have to sell any such securities before a recovery in cost. No impairment losses were recorded during the three and nine months ended September 30, 2014 and 2013.

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Maturities of investment securities at September 30, 2014 are shown below. Maturities of mortgage-backed securities have been adjusted to reflect shorter maturities based upon estimated prepayments of principal. All other investment securities maturities are shown at contractual maturity dates.

| September 30, 2014                    | Available-for-Sale |                      | Held-to-Maturity |                      |
|---------------------------------------|--------------------|----------------------|------------------|----------------------|
|                                       | Amortized Cost     | Estimated Fair Value | Amortized Cost   | Estimated Fair Value |
| Within one year                       | \$261,829          | \$263,597            | \$88,305         | \$88,490             |
| After one year but within five years  | 1,074,666          | 1,075,712            | 285,622          | 286,860              |
| After five years but within ten years | 181,258            | 179,828              | 144,409          | 146,353              |
| After ten years                       | 66,850             | 67,366               | 64,935           | 66,329               |
| Total                                 | \$1,584,603        | \$1,586,503          | \$583,271        | \$588,032            |

As of September 30, 2014, the Company had investment securities callable within one year with amortized costs and estimated fair values of \$178,937 and \$178,814, respectively, including callable structured notes with amortized costs and estimated fair values of \$69,967 and \$69,997, respectively. These investment securities are primarily classified as available-for-sale and included in the after one year but within five years category in the table above.

## (4) Loans

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

|                                | September 30,<br>2014 | December 31,<br>2013 |
|--------------------------------|-----------------------|----------------------|
| Real estate loans:             |                       |                      |
| Commercial                     | \$1,686,509           | \$1,449,174          |
| Construction:                  |                       |                      |
| Land acquisition & development | 194,138               | 205,911              |
| Residential                    | 88,179                | 76,488               |
| Commercial                     | 85,103                | 69,236               |
| Total construction loans       | 367,420               | 351,635              |
| Residential                    | 957,282               | 867,912              |
| Agricultural                   | 158,940               | 173,534              |
| Total real estate loans        | 3,170,151             | 2,842,255            |
| Consumer:                      |                       |                      |
| Indirect consumer              | 537,765               | 476,012              |
| Other consumer                 | 145,076               | 133,039              |
| Credit card                    | 62,641                | 62,536               |
| Total consumer loans           | 745,482               | 671,587              |
| Commercial                     | 736,908               | 676,544              |
| Agricultural                   | 136,587               | 111,872              |
| Other, including overdrafts    | 2,316                 | 1,734                |
| Loans held for investment      | 4,791,444             | 4,303,992            |
| Mortgage loans held for sale   | 62,938                | 40,861               |
| Total loans                    | \$4,854,382           | \$4,344,853          |

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



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The following table displays the outstanding unpaid principal balance, accrued interest receivable and accrual status of loans acquired with credit impairment as of September 30, 2014.

As of September 30, 2014

|                             |          |
|-----------------------------|----------|
| Outstanding balance         | \$42,627 |
| Carrying value              |          |
| Loans on accrual status     | 32,350   |
| Loans on non-accrual status | —        |
| Total carrying value        | \$32,350 |

The following table summarizes changes in the accretable yield for loans acquired credit impaired for the three and nine months ended September 30, 2014:

|                               | Three Months Ended<br>September 30, 2014 | Nine Months Ended<br>September 30, 2014 |   |
|-------------------------------|--|---|---|
| Beginning balance             | \$—                                      | \$—                                     |   |
| Acquisition                   | 5,233                                    | 5,233                                   |   |
| Accretion income              | (289)                                    | (289)                                   | ) |
| Reductions due to exit events | (16)                                     | (16)                                    | ) |
| Ending balance                | \$4,928                                  | \$4,928                                 |   |

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

|                                | Total Loans                 |                             |                          |                                | Current<br>Loans | Non-accrual<br>Loans | Total<br>Loans |
|--------------------------------|-----------------------------|-----------------------------|--------------------------|--------------------------------|------------------|----------------------|----------------|
|                                | 30 - 59<br>Days<br>Past Due | 60 - 89<br>Days<br>Past Due | > 90<br>Days<br>Past Due | 30 or More<br>Days<br>Past Due |                  |                      |                |
| As of September 30, 2014       |                             |                             |                          |                                |                  |                      |                |
| Real estate                    |                             |                             |                          |                                |                  |                      |                |
| Commercial                     | \$4,290                     | \$3,173                     | \$199                    | \$7,662                        | \$1,643,243      | \$35,604             | \$1,686,509    |
| Construction:                  |                             |                             |                          |                                |                  |                      |                |
| Land acquisition & development | 4,674                       | 941                         | —                        | 5,615                          | 178,608          | 9,915                | 194,138        |
| Residential                    | 1,798                       | 311                         | —                        | 2,109                          | 85,832           | 238                  | 88,179         |
| Commercial                     | —                           | —                           | —                        | —                              | 82,534           | 2,569                | 85,103         |
| Total construction loans       | 6,472                       | 1,252                       | —                        | 7,724                          | 346,974          | 12,722               | 367,420        |
| Residential                    | 5,054                       | 542                         | 766                      | 6,362                          | 948,412          | 2,508                | 957,282        |
| Agricultural                   | 909                         | 154                         | —                        | 1,063                          | 151,028          | 6,849                | 158,940        |
| Total real estate loans        | 16,725                      | 5,121                       | 965                      | 22,811                         | 3,089,657        | 57,683               | 3,170,151      |
| Consumer:                      |                             |                             |                          |                                |                  |                      |                |
| Indirect consumer              | 2,728                       | 278                         | 2                        | 3,008                          | 534,344          | 413                  | 537,765        |
| Other consumer                 | 976                         | 154                         | 39                       | 1,169                          | 143,320          | 587                  | 145,076        |
| Credit card                    | 340                         | 261                         | 235                      | 836                            | 61,789           | 16                   | 62,641         |
| Total consumer loans           | 4,044                       | 693                         | 276                      | 5,013                          | 739,453          | 1,016                | 745,482        |

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|                                    |          |         |         |          |             |          |             |
|------------------------------------|----------|---------|---------|----------|-------------|----------|-------------|
| Commercial                         | 10,716   | 1,077   | 113     | 11,906   | 712,261     | 12,741   | 736,908     |
| Agricultural                       | 23       | —       | —       | 23       | 136,089     | 475      | 136,587     |
| Other, including overdrafts        | —        | —       | —       | —        | 2,316       | —        | 2,316       |
| Loans held for investment          | 31,508   | 6,891   | 1,354   | 39,753   | 4,679,776   | 71,915   | 4,791,444   |
| Mortgage loans originated for sale | —        | —       | —       | —        | 62,938      | —        | 62,938      |
| Total loans                        | \$31,508 | \$6,891 | \$1,354 | \$39,753 | \$4,742,714 | \$71,915 | \$4,854,382 |

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| As of December 31, 2013            | 30 - 59          | 60 - 89          | > 90             | Total Loans                    |                  |                      |                |
|------------------------------------|------------------|------------------|------------------|--------------------------------|------------------|----------------------|----------------|
|                                    | Days<br>Past Due | Days<br>Past Due | Days<br>Past Due | 30 or More<br>Days<br>Past Due | Current<br>Loans | Non-accrual<br>Loans | Total<br>Loans |
| Real estate                        |                  |                  |                  |                                |                  |                      |                |
| Commercial                         | \$5,924          | \$2,472          | \$22             | \$8,418                        | \$1,391,823      | \$48,933             | \$1,449,174    |
| Construction:                      |                  |                  |                  |                                |                  |                      |                |
| Land acquisition & development     | 1,062            | 468              | 38               | 1,568                          | 188,074          | 16,269               | 205,911        |
| Residential                        | 933              | 250              | —                | 1,183                          | 73,933           | 1,372                | 76,488         |
| Commercial                         | 584              | —                | —                | 584                            | 68,427           | 225                  | 69,236         |
| Total construction loans           | 2,579            | 718              | 38               | 3,335                          | 330,434          | 17,866               | 351,635        |
| Residential                        | 3,630            | 206              | 1,162            | 4,998                          | 856,800          | 6,114                | 867,912        |
| Agricultural                       | 328              | 646              | —                | 974                            | 163,986          | 8,574                | 173,534        |
| Total real estate loans            | 12,461           | 4,042            | 1,222            | 17,725                         | 2,743,043        | 81,487               | 2,842,255      |
| Consumer:                          |                  |                  |                  |                                |                  |                      |                |
| Indirect consumer                  | 3,303            | 430              | 9                | 3,742                          | 471,906          | 364                  | 476,012        |
| Other consumer                     | 925              | 130              | 1                | 1,056                          | 131,508          | 475                  | 133,039        |
| Credit card                        | 364              | 187              | 515              | 1,066                          | 61,451           | 19                   | 62,536         |
| Total consumer loans               | 4,592            | 747              | 525              | 5,864                          | 664,865          | 858                  | 671,587        |
| Commercial                         | 2,791            | 1,186            | 563              | 4,540                          | 660,035          | 11,969               | 676,544        |
| Agricultural                       | 453              | 672              | —                | 1,125                          | 110,622          | 125                  | 111,872        |
| Other, including overdrafts        | —                | —                | —                | —                              | 1,734            | —                    | 1,734          |
| Loans held for investment          | 20,297           | 6,647            | 2,310            | 29,254                         | 4,180,299        | 94,439               | 4,303,992      |
| Mortgage loans originated for sale | —                | —                | —                | —                              | 40,861           | —                    | 40,861         |
| Total loans                        | \$20,297         | \$6,647          | \$2,310          | \$29,254                       | \$4,221,160      | \$94,439             | \$4,344,853    |

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition were considered performing upon acquisition. If interest on non-accrual loans had been accrued, such income would have been approximately \$992 and \$1,216 for the three months ended September 30, 2014 and 2013, respectively, and approximately \$3,176 and \$3,877 for the nine months ended September 30, 2014 and 2013, respectively.

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

|                                | Unpaid<br>Total<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance |
|--------------------------------|---|--|---|---------------------------------|----------------------|
| As of September 30, 2014       |   |  |   |                                 |                      |
| Real estate:                   |   |  |   |                                 |                      |
| Commercial                     | \$47,675                                | \$24,184                                       | \$21,603                                    | \$45,787                        | \$2,993              |
| Construction:                  |   |  |   |                                 |                      |
| Land acquisition & development | 14,162                                  | 7,162  | 3,366                                       | 10,528                          | 590                  |
| Residential                    | 382                                     | 238  | —   | 238                             | —                    |
| Commercial                     | 2,736                                   | 258  | 2,444                                       | 2,702                           | 906                  |
| Total construction loans       | 17,280                                  | 7,658  | 5,810                                       | 13,468                          | 1,496                |
| Residential                    | 2,621                                   | 2,083  | 371   | 2,454                           | 124                  |
| Agricultural                   | 8,942                                   | 7,074  | 1,772                                       | 8,846                           | 192                  |
| Total real estate loans        | 76,518                                  | 40,999   | 29,556                                      | 70,555                          | 4,805                |
| Commercial                     | 16,174                                  | 9,560  | 4,109                                       | 13,669                          | 1,445                |
| Agricultural                   | 886                                     | 379  | 455   | 834                             | 320                  |
| Total                          | \$93,578                                | \$50,938                                       | \$34,120                                    | \$85,058                        | \$6,570              |
| As of December 31, 2013        |   |  |   |                                 |                      |
| Real estate:                   |   |  |   |                                 |                      |
| Commercial                     | \$64,780                                | \$29,216                                       | \$33,937                                    | \$63,153                        | \$5,210              |
| Construction:                  |   |  |   |                                 |                      |
| Land acquisition & development | 23,906                                  | 9,901  | 7,226                                       | 17,127                          | 1,434                |
| Residential                    | 1,816                                   | 1,095  | 277   | 1,372                           | 26                   |
| Commercial                     | 397                                     | 279  | 84  | 363                             | 85                   |
| Total construction loans       | 26,119                                  | 11,275   | 7,587                                       | 18,862                          | 1,545                |
| Residential                    | 9,448                                   | 5,081  | 967   | 6,048                           | 249                  |
| Agricultural                   | 8,895                                   | 6,429  | 2,370                                       | 8,799                           | 335                  |
| Total real estate loans        | 109,242                                 | 52,001   | 44,861                                      | 96,862                          | 7,339                |
| Commercial                     | 15,448                                  | 10,684   | 2,901                                       | 13,585                          | 1,504                |
| Agricultural                   | 177                                     | 39   | 86  | 125                             | 86                   |
| Total                          | \$124,867                               | \$62,724                                       | \$47,848                                    | \$110,572                       | \$8,929              |

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

|                                | Three Months Ended September 30, |                   |                             |                   |
|--------------------------------|----------------------------------|-------------------|-----------------------------|-------------------|
|                                | 2014                             |                   | 2013                        |                   |
|                                | Average Recorded Investment      | Income Recognized | Average Recorded Investment | Income Recognized |
| Real estate:                   |                                  |                   |                             |                   |
| Commercial                     | \$53,492                         | \$211             | \$62,208                    | \$239             |
| Construction:                  |                                  |                   |                             |                   |
| Land acquisition & development | 11,611                           | 11                | 17,614                      | 19                |
| Residential                    | 304                              | —                 | 1,513                       | —                 |
| Commercial                     | 2,709                            | 2                 | 1,174                       | 2                 |
| Total construction loans       | 14,624                           | 13                | 20,301                      | 21                |
| Residential                    | 4,773                            | 1                 | 7,770                       | 6                 |
| Agricultural                   | 9,031                            | 25                | 9,995                       | —                 |
| Total real estate loans        | 81,920                           | 250               | 100,274                     | 266               |
| Commercial                     | 14,252                           | 14                | 16,245                      | 16                |
| Agricultural                   | 906                              | 6                 | 240                         | 4                 |
| Total                          | \$97,078                         | \$270             | \$116,759                   | \$286             |
|                                | Nine Months Ended September 30,  |                   |                             |                   |
|                                | 2014                             |                   | 2013                        |                   |
|                                | Average Recorded Investment      | Income Recognized | Average Recorded Investment | Income Recognized |
| Real estate:                   |                                  |                   |                             |                   |
| Commercial                     | \$57,743                         | \$668             | \$65,726                    | \$849             |
| Construction:                  |                                  |                   |                             |                   |
| Land acquisition & development | 13,529                           | 33                | 19,923                      | 475               |
| Residential                    | 799                              | —                 | 1,949                       | —                 |
| Commercial                     | 1,520                            | 6                 | 5,161                       | 2                 |
| Total construction loans       | 15,848                           | 39                | 27,033                      | 477               |
| Residential                    | 5,537                            | 4                 | 8,882                       | 15                |
| Agricultural                   | 10,223                           | 54                | 7,751                       | 8                 |
| Total real estate loans        | 89,351                           | 765               | 109,392                     | 1,349             |
| Commercial                     | 14,001                           | 42                | 15,065                      | 52                |
| Agricultural                   | 707                              | 18                | 335                         | 12                |
| Total                          | \$104,059                        | \$825             | \$124,792                   | \$1,413           |

The amount of interest income recognized by the Company within the period that the loans were impaired was primarily related to loans modified in a troubled debt restructuring that remained on accrual status. Interest payments received on non-accrual impaired loans are applied to principal. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. If interest on impaired loans had been accrued, interest income on impaired loans would have been approximately \$1,246 and \$1,481 for the three months ended

September 30, 2014 and 2013, respectively and approximately \$3,927 and \$4,832 for the nine months ended September 30, 2014 and 2013, respectively.

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

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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 of less than twelve months, 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 the Company, for economic or legal reasons, grants a concession to the borrower that it would not otherwise consider. Certain troubled debt restructurings are on non-accrual status at the time of restructuring and are typically returned to accrual status after considering the borrower's sustained repayment performance in accordance with the restructuring agreement for a 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 return to performing status and the accrual of interest will resume.

The Company had loans renegotiated in troubled debt restructurings of \$51,562 as of September 30, 2014, of which \$30,606 were included in non-accrual loans and \$20,956 were on accrual status. The Company had loans renegotiated in troubled debt restructurings of \$59,792 as of December 31, 2013, of which \$38,011 were included in non-accrual loans and \$21,781 were on accrual status.

The following tables present information on the Company's troubled debt restructurings that occurred during the three and nine months ended September 30, 2014:

| Three Months Ended September 30, 2014  | Number of Notes | Type of Concession   |                                |                          |           | Principal Balance at Restructure Date |
|--|-----------------|----------------------|--------------------------------|--------------------------|-----------|---------------------------------------|
|  |                 | Interest only period | Extension of terms or maturity | Interest rate adjustment | Other (1) |                                       |
| Commercial real estate                 | 3               | \$—                  | \$445                          | \$84                     | \$—       | \$529                                 |
| Consumer                               | 1               | —                    | 114                            | —                        | —         | 114                                   |
| Total loans restructured during period | 4               | \$—                  | \$559                          | \$84                     | \$—       | \$643                                 |

(1) Other includes concessions that reduce or defer payments for a specified period of time and/or do not fit into other designated categories.

| Nine Months Ended September 30, 2014   | Number of Notes | Type of Concession   |                                |                          |           | Principal Balance at Restructure Date |
|--|-----------------|----------------------|--------------------------------|--------------------------|-----------|---------------------------------------|
|  |                 | Interest only period | Extension of terms or maturity | Interest rate adjustment | Other (1) |                                       |
| Commercial real estate                 | 11              | \$2,931              | \$671                          | \$84                     | \$921     | \$4,607                               |
| Consumer                               | 1               | —                    | 114                            | —                        | —         | 114                                   |
| Commercial                             | 4               | 299                  | —                              | —                        | 30        | 329                                   |
| Total loans restructured during period | 16              | \$3,230              | \$785                          | \$84                     | \$951     | \$5,050                               |

(1) Other includes concessions that reduce or defer payments for a specified period of time and/or do not fit into other designated categories.

For troubled debt restructurings that were on non-accrual status or otherwise deemed impaired before the modification, a specific reserve may already be recorded. In periods subsequent to modification, the Company continues to evaluate all troubled debt restructurings for possible impairment and recognizes impairment through the

allowance. Additionally these loans continue to work their way through the credit cycle through charge-off, pay-off or foreclosure. Financial effects of modifications of troubled debt restructurings may include principal loan forgiveness or other charge-offs directly related to the restructuring. The Company had no charge-offs directly related to modifying troubled debt restructurings during the three or nine months ended September 30, 2014 or 2013.



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The following table presents information on the Company's troubled debt restructurings during the previous 12 months for which there was a payment default during the periods indicated. The Company considers a payment default to occur on troubled debt restructurings when the loan is 90 days or more past due or was placed on non-accrual status after the modification.

|            | Three Months Ended September<br>30, 2014 |         | Nine Months Ended September<br>30, 2014 |         |
|------------|--|---------|---|---------|
|            | Number of<br>Notes                       | Balance | Number of<br>Notes                      | Balance |
| Commercial | —  | \$—     | 2                                       | \$72    |

At September 30, 2014, there were no material commitments to lend additional funds to borrowers whose existing loans have been renegotiated or are classified as non-accrual.

As part of the on-going and continuous monitoring of the credit quality of the Company's loan portfolio, management tracks internally assigned risk classifications of loans. The Company adheres to a Uniform Classification System developed jointly by the various bank regulatory agencies to internally risk rate loans. The Uniform Classification System defines three broad categories of criticized assets, which the Company uses as credit quality indicators:

**Other Assets Especially Mentioned** — includes loans that exhibit weaknesses in financial condition, loan structure or documentation, which if not promptly corrected, may lead to the development of abnormal risk elements.

**Substandard** — includes loans that are inadequately protected by the current sound worth and paying capacity of the borrower. Although the primary source of repayment for a Substandard loan is not currently sufficient; collateral or other sources of repayment are sufficient to satisfy the debt. Continuance of a Substandard loan is not warranted unless positive steps are taken to improve the worthiness of the credit.

**Doubtful** — includes loans that exhibit pronounced weaknesses to a point where collection or liquidation in full, on the basis of currently existing facts, conditions and values, is highly questionable and improbable. Doubtful loans are required to be placed on non-accrual status and are assigned specific loss exposure.

Company management undertakes the same process for assigning risk ratings to acquired loans as it does for originated loans. Acquired loans rated as substandard or lower or that were on non-accrual status or designated as troubled debt restructurings at the time of acquisition are deemed to be acquired credit impaired loans accounted for under ASC Topic 310-30, regardless of whether they are classified as performing or non-performing loans.

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The following tables present the Company's recorded investment in criticized loans by class and credit quality indicator based on the most recent analysis performed as of the dates indicated:

| As of September 30, 2014       | Other Assets         |             |          | Total Criticized Loans |
|--------------------------------|----------------------|-------------|----------|------------------------|
|                                | Especially Mentioned | Substandard | Doubtful |                        |
| Real estate:                   |                      |             |          |                        |
| Commercial                     | \$86,668             | \$86,206    | \$20,997 | \$193,871              |
| Construction:                  |                      |             |          |                        |
| Land acquisition & development | 12,462               | 17,470      | 2,424    | 32,356                 |
| Residential                    | 1,833                | 1,738       | —        | 3,571                  |
| Commercial                     | 169                  | 258         | 2,444    | 2,871                  |
| Total construction loans       | 14,464               | 19,466      | 4,868    | 38,798                 |
| Residential                    | 10,613               | 8,387       | 846      | 19,846                 |
| Agricultural                   | 9,748                | 11,178      | 613      | 21,539                 |
| Total real estate loans        | 121,493              | 125,237     | 27,324   | 274,054                |
| Consumer:                      |                      |             |          |                        |
| Indirect consumer              | 810                  | 1,589       | 173      | 2,572                  |
| Other consumer                 | 593                  | 861         | 467      | 1,921                  |
| Credit card                    | —                    | 298         | 1,537    | 1,835                  |
| Total consumer loans           | 1,403                | 2,748       | 2,177    | 6,328                  |
| Commercial                     | 23,501               | 23,461      | 9,494    | 56,456                 |
| Agricultural                   | 10,072               | 4,677       | 455      | 15,204                 |
| Total                          | \$156,469            | \$156,123   | \$39,450 | \$352,042              |
| As of December 31, 2013        |                      |             |          |                        |
|                                | Other Assets         |             |          | Total Criticized Loans |
|                                | Especially Mentioned | Substandard | Doubtful |                        |
| Real estate:                   |                      |             |          |                        |
| Commercial                     | \$79,747             | \$86,426    | \$24,840 | \$191,013              |
| Construction:                  |                      |             |          |                        |
| Land acquisition & development | 13,211               | 19,677      | 7,329    | 40,217                 |
| Residential                    | 1,859                | 1,649       | 277      | 3,785                  |
| Commercial                     | —                    | 409         | 84       | 493                    |
| Total construction loans       | 15,070               | 21,735      | 7,690    | 44,495                 |
| Residential                    | 7,500                | 7,188       | 4,184    | 18,872                 |
| Agricultural                   | 13,597               | 10,245      | 2,370    | 26,212                 |
| Total real estate loans        | 115,914              | 125,594     | 39,084   | 280,592                |
| Consumer:                      |                      |             |          |                        |
| Indirect consumer              | 875                  | 1,524       | 115      | 2,514                  |
| Other consumer                 | 573                  | 969         | 268      | 1,810                  |
| Credit card                    | —                    | 392         | 2,010    | 2,402                  |
| Total consumer loans           | 1,448                | 2,885       | 2,393    | 6,726                  |
| Commercial                     | 33,318               | 23,833      | 3,745    | 60,896                 |
| Agricultural                   | 8,401                | 1,788       | 86       | 10,275                 |
| Total                          | \$159,081            | \$154,100   | \$45,308 | \$358,489              |



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The Company maintains a credit review function, which is independent of the credit approval process, to assess assigned internal risk classifications and monitor compliance with internal lending policies and procedures. Written action plans with firm target dates for resolution of identified problems are maintained and reviewed on a quarterly basis for all categories of criticized loans.

## (5) Allowance for Loan Losses

The following tables present a summary of changes in the allowance for loan losses by portfolio segment for the periods indicated.

| Three Months Ended September 30, 2014               | Real Estate | Consumer  | Commercial | Agriculture | Other   | Total       |
|---|-------------|-----------|------------|-------------|---------|-------------|
| Allowance for loan losses:                          |             |           |            |             |         |             |
| Beginning balance                                   | \$57,312    | \$5,347   | \$14,986   | \$621       | \$—     | \$78,266    |
| Provision charged to operating expense              | (3,839)     | )423      | 3,598      | 67          | 12      | 261         |
| Less loans charged-off                              | (147)       | ) (1,437  | ) (4,678   | )—          | (12     | ) (6,274    |
| Add back recoveries of loans previously charged-off | 999         | 495       | 484        | —           | —       | 1,978       |
| Ending balance                                      | \$54,325    | \$4,828   | \$14,390   | \$688       | \$—     | \$74,231    |
| Nine Months Ended September 30, 2014                | Real Estate | Consumer  | Commercial | Agriculture | Other   | Total       |
| Allowance for loan losses:                          |             |           |            |             |         |             |
| Beginning balance                                   | \$63,923    | \$6,193   | \$14,747   | \$476       | \$—     | \$85,339    |
| Provision charged to operating expense              | (9,225)     | )191      | 2,032      | 250         | 12      | (6,740)     |
| Less loans charged-off                              | (2,390)     | ) (3,217  | ) (6,008   | ) (64       | ) (12   | ) (11,691)  |
| Add back recoveries of loans previously charged-off | 2,017       | 1,661     | 3,619      | 26          | —       | 7,323       |
| Ending balance                                      | \$54,325    | \$4,828   | \$14,390   | \$688       | \$—     | \$74,231    |
| As of September 30, 2014                            | Real Estate | Consumer  | Commercial | Agriculture | Other   | Total       |
| Allowance for loan losses:                          |             |           |            |             |         |             |
| Loans individually evaluated for impairment         | \$4,805     | \$—       | \$1,445    | \$320       | \$—     | \$6,570     |
| Loans collectively evaluated for impairment         | 49,520      | 4,828     | 12,945     | 368         | —       | 67,661      |
| Allowance for loan losses                           | \$54,325    | \$4,828   | \$14,390   | \$688       | \$—     | \$74,231    |
| As of September 30, 2014                            | Real Estate | Consumer  | Commercial | Agriculture | Other   | Total       |
| Total loans:  |             |           |            |             |         |             |
| Individually evaluated for impairment               | \$70,555    | \$—       | \$13,669   | \$834       | \$—     | \$85,058    |
| Collectively evaluated for impairment               | 3,162,534   | 745,482   | 723,239    | 135,753     | 2,316   | 4,769,324   |
| Total loans   | \$3,233,089 | \$745,482 | \$736,908  | \$136,587   | \$2,316 | \$4,854,382 |

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| Three Months Ended September 30, 2013               | Real Estate | Consumer  | Commercial | Agriculture | Other   | Total       |
|---|-------------|-----------|------------|-------------|---------|-------------|
| Allowance for loan losses:                          |             |           |            |             |         |             |
| Beginning balance                                   | \$71,503    | \$7,040   | \$19,475   | \$510       | \$—     | \$98,528    |
| Provision charged to operating expense              | (2,820)     | )289      | (390)      | )79         | )—      | (3,000)     |
| Less loans charged-off                              | (2,129)     | )1,083    | )1,703     | )—          | —       | (4,915)     |
| Add back recoveries of loans previously charged-off | 1,399       | 484       | 474        | 20          | —       | 2,377       |
| Ending balance                                      | \$67,953    | \$6,730   | \$17,856   | \$451       | \$—     | \$92,990    |
| Nine Months Ended September 30, 2013                | Real Estate | Consumer  | Commercial | Agriculture | Other   | Total       |
| Allowance for loan losses:                          |             |           |            |             |         |             |
| Beginning balance                                   | \$75,782    | \$7,140   | \$17,085   | \$504       | \$—     | \$100,511   |
| Provision charged to operating expense              | (4,864)     | )1,405    | 1,409      | (75)        | )—      | (2,125)     |
| Less loans charged-off                              | (8,299)     | )3,444    | )3,083     | )4          | )—      | (14,830)    |
| Add back recoveries of loans previously charged-off | 5,334       | 1,629     | 2,445      | 26          | —       | 9,434       |
| Ending balance                                      | \$67,953    | \$6,730   | \$17,856   | \$451       | \$—     | \$92,990    |
| As of September 30, 2013                            | Real Estate | Consumer  | Commercial | Agriculture | Other   | Total       |
| Allowance for loan losses:                          |             |           |            |             |         |             |
| Loans individually evaluated for impairment         | \$9,216     | \$—       | \$4,126    | \$19        | \$—     | \$13,361    |
| Loans collectively evaluated for impairment         | 58,737      | 6,730     | 13,730     | 432         | —       | 79,629      |
| Allowance for loan losses                           | \$67,953    | \$6,730   | \$17,856   | \$451       | \$—     | \$92,990    |
| As of September 30, 2013                            | Real Estate | Consumer  | Commercial | Agriculture | Other   | Total       |
| Total loans:  |             |           |            |             |         |             |
| Individually evaluated for impairment               | \$97,717    | \$—       | \$13,743   | \$116       | \$—     | \$111,576   |
| Collectively evaluated for impairment               | 2,755,298   | 672,184   | 667,673    | 123,449     | 1,912   | 4,220,516   |
| Total loans   | \$2,853,015 | \$672,184 | \$681,416  | \$123,565   | \$1,912 | \$4,332,092 |

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 and consists of three elements: (1) specific valuation allowances based on probable losses on impaired loans; (2) historical valuation allowances based on loan loss experience for similar loans with similar characteristics and trends; and (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 the Company.

Specific allowances are established for loans where management has determined that probability of a loss exists by analyzing the borrower's ability to repay amounts owed, collateral deficiencies and any relevant qualitative or economic factors impacting the loan. 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. General valuation allowances are determined by evaluating, on a quarterly basis, changes in the nature and volume of the loan portfolio, overall portfolio quality, industry concentrations, current economic and regulatory conditions and the estimated impact of these factors on historical loss rates.

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An allowance for loan losses is established for loans acquired credit impaired and for which the Company projects a decrease in the expected cash flows in periods subsequent to the acquisition of such loans. As of September 30, 2014, there had been no decreases in expected cash flows for loans acquired credit impaired and no allowance for loan loss related to these loans was recorded.

## (6) Other Real Estate Owned

Information with respect to the Company's other real estate owned follows:

|                                   | Three Months Ended September 30, |           | Nine Months Ended September 30, |           |
|-----------------------------------|----------------------------------|-----------|---------------------------------|-----------|
|                                   | 2014                             | 2013      | 2014                            | 2013      |
| Beginning balance                 | \$ 16,425                        | \$ 22,782 | \$ 15,504                       | \$ 32,571 |
| OREO acquired through acquisition | 3,608                            | —         | 3,608                           | —         |
| Additions                         | 398                              | 1,952     | 4,797                           | 10,507    |
| Capitalized improvements          | —                                | —         | —                               | 13        |
| Valuation adjustments             | (77                              | ) —       | (87                             | ) (2,564  |
| Dispositions                      | (1,858                           | ) (6,197  | ) (5,326                        | ) (21,990 |
| Ending balance                    | \$ 18,496                        | \$ 18,537 | \$ 18,496                       | \$ 18,537 |

## (7) Subordinated Debentures Held by Subsidiary Trusts

In conjunction with the acquisition of MWFC, the Company acquired sponsorship of two wholly-owned business trusts, MWF Statutory Trust III and MWF Statutory Trust IV (collectively the "Trusts"), which were formed for the exclusive purpose of issuing an aggregate of \$19,825 of 30-year floating rate mandatorily redeemable capital trust preferred securities ("Trust Preferred Securities") to third-party investors. The Trusts also issued, in aggregate, \$614 of common equity securities to MWFC. Proceeds from the issuance of the Trust Preferred Securities and common equity securities were invested in 30-year junior subordinated deferrable interest debentures ("Subordinated Debentures") issued by MWFC.

MWFC issued \$6,006 of Subordinated Debentures to Trust III. The Subordinated Debentures mature on September 26, 2033 and bear a cumulative floating interest rate equal to the three month London Interbank Offered Rate ("LIBOR") plus 3.10% per annum. As of September 30, 2014, the interest rate on the Subordinated Debentures was 3.33%.

MWFC issued \$14,433 of Subordinated Debentures to Trust IV. The Subordinated Debentures mature on December 15, 2036 and bear a cumulative floating interest rate equal to the three month LIBOR plus 1.85% per annum. As of September 30, 2014, the interest rate on the Subordinated Debentures was 2.08%.

The Subordinated Debentures are unsecured with interest distributions payable quarterly. Payment of interest may be deferred at any time provided that the deferral period does not extend past the stated maturity. During any such deferral period, distributions on the Trust Preferred Securities will also be deferred and the Company's ability to pay dividends on its common and preferred shares is restricted. The Subordinated Debentures may be redeemed, subject to approval by the Federal Reserve Bank, on any quarterly redemption date set forth in the agreements.

The terms of the Trust Preferred Securities are identical to those of the Subordinated Debentures. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity dates or earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. The Company guarantees the payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by the Trusts.



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Subject to certain limitations, the Trust Preferred Securities qualify as tier 1 capital of the Parent Company under the Federal Reserve Board's capital adequacy guidelines. Proceeds from the issuance of the Trust Preferred Securities were used to fund acquisitions.

**(8) Capital Stock**

The Company had 21,747,983 shares of Class A common stock and 23,924,939 shares of Class B common stock outstanding as of September 30, 2014. The Company had 19,868,018 shares of Class A common stock and 24,287,045 shares of Class B common stock outstanding as of December 31, 2013.

On July 31, 2014, the Company issued 1,378,230 shares of its Class A common stock with an aggregate value of \$35,972 as partial consideration for the acquisition of MWFC. In addition, during the nine months ended September 30, 2014, the Company issued 24,581 shares of its Class A common stock to directors for their annual service on the Company's board of directors. The aggregate value of the shares issued to directors of \$621 is included in stock-based compensation expense in the accompanying consolidated statements of changes in stockholder's equity.

During the nine months ended September 30, 2014, the Company repurchased and retired 362,121 shares of its Class A common stock in a combination of open market and privately negotiated transactions at an aggregate purchase price of \$9,078. The repurchases were made pursuant to a stock repurchase program approved by the Company's Board of Directors in November 2013. Under the terms of the stock repurchase program, the Company may repurchase up to an additional 1,637,879 shares of its Class A common stock prior to expiration of the plan on November 25, 2014. All other stock repurchases during the three and nine months ended September 30, 2014 and 2013 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.

On January 24, 2014, the Company filed a Registration Statement on Form S-8 to register an additional 1,500,000 shares of Class A common stock to be issued pursuant to the Company's 2006 Equity Compensation Plan, as amended and restated.

**(9) Earnings per Common Share**

Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period presented, excluding unvested restricted stock. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares determined for the basic earnings per share computation plus the dilutive effects of stock-based compensation using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine month periods ended September 30, 2014 and 2013.

|            | Three Months Ended |            | Nine Months Ended |            |
|------------|--------------------|------------|-------------------|------------|
|            | September 30,      |            | September 30,     |            |
|            | 2014               | 2013       | 2014              | 2013       |
| Net income | \$19,155           | \$23,812   | \$61,625          | \$65,361   |
|            | 44,911,858         | 43,699,566 | 44,321,326        | 43,458,309 |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Weighted average common shares outstanding for basic earnings per share computation          |            |            |            |            |
| Dilutive effects of stock-based compensation   | 548,430    | 585,278    | 562,667    | 384,980    |
| Weighted average common shares outstanding for diluted earnings per common share computation | 45,460,288 | 44,284,844 | 44,883,993 | 43,843,289 |
| Basic earnings per common share  | \$0.43     | \$0.54     | \$1.39     | \$1.50     |
| Diluted earnings per common share  | \$0.42     | \$0.54     | \$1.37     | \$1.49     |

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The Company had 102,529 and 54,402 shares of unvested restricted stock as of September 30, 2014 and 2013, respectively, that were not included in the computation of diluted earnings per common share because performance conditions for vesting had not been met. In addition, the Company had 875,714 stock options outstanding as of September 30, 2013, that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive. The Company had no anti-dilutive stock options outstanding as of September 30, 2014.

## (10)Regulatory Capital

The Company is subject to the regulatory capital requirements administered by federal banking regulators and the Federal Reserve. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and tier 1 capital to risk-weighted assets, and of tier 1 capital to average assets, as defined in the regulations. As of September 30, 2014 and December 31, 2013, the Company exceeded all capital adequacy requirements to which it is subject.

Actual capital amounts and ratios and selected minimum regulatory thresholds for the Company and its bank subsidiaries, as of September 30, 2014 and December 31, 2013 are presented in the following tables:

|                            | Actual<br>Amount | Ratio |   | Adequately Capitalized<br>Amount | Ratio |   | Well Capitalized<br>Amount | Ratio |   |
|----------------------------|------------------|-------|---|----------------------------------|-------|---|----------------------------|-------|---|
| September 30, 2014         |                  |       |   |                                  |       |   |                            |       |   |
| Total risk-based capital:  |                  |       |   |                                  |       |   |                            |       |   |
| Consolidated               | \$898,047        | 16.3  | % | \$439,616                        | 8.0   | % | NA                         | NA    |   |
| FIB                        | 751,699          | 14.8  |   | 405,953                          | 8.0   |   | \$507,441                  | 10.0  | % |
| MWB                        | 63,114           | 15.9  |   | 31,710                           | 8.0   |   | 39,637                     | 10.0  | % |
| Tier 1 risk-based capital: |                  |       |   |                                  |       |   |                            |       |   |
| Consolidated               | 808,289          | 14.7  |   | 219,808                          | 4.0   |   | NA                         | NA    |   |
| FIB                        | 679,135          | 13.4  |   | 202,976                          | 4.0   |   | \$304,465                  | 6.0   |   |
| MWB                        | 63,114           | 15.9  |   | 15,855                           | 4.0   |   | 23,782                     | 6.0   |   |
| Leverage capital ratio:    |                  |       |   |                                  |       |   |                            |       |   |
| Consolidated               | 808,289          | 10.4  |   | 310,206                          | 4.0   |   | NA                         | NA    |   |
| FIB                        | 679,135          | 9.0   |   | 302,110                          | 4.0   |   | \$377,638                  | 5.0   |   |
| MWB                        | 63,114           | 10.8  |   | 23,461                           | 4.0   |   | \$29,327                   | 5.0   |   |

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|                            | Actual    |       |   | Adequately Capitalized |       |   | Well Capitalized |       |   |
|----------------------------|-----------|-------|---|------------------------|-------|---|------------------|-------|---|
|                            | Amount    | Ratio |   | Amount                 | Ratio |   | Amount           | Ratio |   |
| December 31, 2013          |           |       |   |                        |       |   |                  |       |   |
| Total risk-based capital:  |           |       |   |                        |       |   |                  |       |   |
| Consolidated               | \$829,443 | 16.8  | % | \$396,210              | 8.0   | % | NA               | NA    |   |
| FIB                        | 723,955   | 14.7  |   | 394,038                | 8.0   |   | \$492,548        | 10.0  | % |
| Tier 1 risk-based capital: |           |       |   |                        |       |   |                  |       |   |
| Consolidated               | 739,246   | 14.9  |   | 198,105                | 4.0   |   | NA               | NA    |   |
| FIB                        | 650,093   | 13.2  |   | 197,019                | 4.0   |   | \$295,529        | 6.0   |   |
| Leverage capital ratio:    |           |       |   |                        |       |   |                  |       |   |
| Consolidated               | 739,246   | 10.1  |   | 293,414                | 4.0   |   | NA               | NA    |   |
| FIB                        | 650,093   | 8.9   |   | 292,199                | 4.0   |   | \$365,248        | 5.0   |   |

## (11) Commitments and Contingencies

## Legal Proceedings:

First Interstate Bank ("the Bank"), a wholly owned banking subsidiary of the Company, was a defendant in a lender liability lawsuit, Kelly Logging Inc. v. First Interstate Bank ("the case"). The case was tried in August 2014 in the Montana Fourth Judicial District, Missoula County in Missoula, Montana ("the court"). On August, 2014, a jury awarded damages to Kelly Logging of \$17,047, which included \$287 in compensatory damages and \$16,760 in punitive damages. On October 1, 2014, a non-final judgment was entered in this matter in the amount of \$17,047 plus reasonable attorney fees and interest. The non-final judgment is subject to the court's mandatory review of the jury's punitive damages award and rulings on pending post-trial motions including the Bank's motions asserting that, among other things, Kelly Logging did not provide legally sufficient evidence to support its claims of damage and requesting a reduction of the jury's punitive damages award. On October 14, 2014, the Company filed with the Montana Supreme Court, a petition for writ of supervisory control vacating the October 1, 2014, judgment entered by the court asserting that the court failed to fulfill its statutory duty before entering judgment, thereby violating the Bank's constitutional rights and on October 16, 2014, the Montana Supreme Court ordered the court to file a summary response to the petition within 10 days. On October 21, 2014, the court entered a revised non-final judgment to clarify that the judgment entered on October 1, 2014 was a conditional judgment that could not be enforced and did not create a judgment lien or trigger the time for appeal. On October 28, 2014, the court responded to the Montana Supreme Court requesting the writ of supervisory control be denied because the issues brought forth were moot. On October 29, 2014, the Company filed a post-trial motion moving the court to alter or amend its October 21, 2014 judgment to reflect judgment in the Company's favor or, alternatively, grant a new trial as to all of the claims to correct manifest errors of law or fact upon which the judgment was based. An evidentiary hearing on Kelly Logging's attorney's fees and costs and oral argument on all post-trial motions has been set by the court for November 12, 2014.

The Company intends to continue to defend itself vigorously in this litigation and believes it has valid bases in law and fact to overturn or appeal the verdict. In recent appellate cases, the Montana Supreme Court has reduced excessive punitive damage awards to comply with the upper limit of the federal due process guidelines, or to an amount equal to no more than nine times the compensatory damages awarded, in even the most egregious cases. Although the Company believes it has meritorious defenses and appellate issues for this litigation, these proceedings are subject to

many uncertainties and, given their complexity and scope, the final outcome cannot be predicted and could have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company. During third quarter 2014, the Company accrued \$4,000 of litigation-related expense, which takes into consideration the federal due process guidelines related to punitive damage awards and estimates of the plaintiff's attorneys fees and interest. This accrual is included in non-core expenses in the accompanying consolidated statement of income.

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In the normal course of business, the Company is involved in various other claims and litigation. In the opinion of management, following consultation with legal counsel, the ultimate liability or disposition thereof of all other claims and litigation is not expected to have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company.

Other Commitments:

As of September 30, 2014, the Company had commitments under construction agreements of \$365 and commitments to purchase available-for-sale U.S. government agency securities of \$9,995.

(12) Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At September 30, 2014, commitments to extend credit to existing and new borrowers approximated \$1,488,996, which included \$490,749 on unused credit card lines and \$361,132 with commitment maturities beyond one year.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. At September 30, 2014, the Company had outstanding standby letters of credit of \$64,752. The estimated fair value of the obligation undertaken by the Company in issuing the standby letters of credit is included in other liabilities in the Company's consolidated balance sheet.

(13) Supplemental Disclosures to Consolidated Statement of Cash Flows

The Company transferred loans of \$4,797 and \$10,507 to OREO during the nine months ended September 30, 2014 and 2013, respectively.

The Company transferred internally originated mortgage servicing rights of \$2,005 and \$2,931 from loans to mortgage servicing assets during the nine months ended September 30, 2014 and 2013, respectively.

During the nine months ended September 30, 2014, the Company issued 1,378,230 shares of its Class A common stock valued at \$35,972 as partial consideration for the acquisition of MWFC.

The Company reclassified tax credit investments with a carrying value of \$429 from held-to-maturity investment securities to other assets during the nine months ended September 30, 2013.

The Company transferred bank buildings and land pending disposal with book values of \$1,448 to other assets during the nine months ended September 30, 2013.



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(14) Other Comprehensive Income/Loss

The gross amounts of each component of other comprehensive income (loss) and the related tax effects are as follows:

|   | Pre-tax    |         | Tax Expense<br>(Benefit) |       | Net of Tax |         |
|---|------------|---------|--------------------------|-------|------------|---------|
|   | 2014       | 2013    | 2014                     | 2013  | 2014       | 2013    |
| Three Months Ended September 30,<br>Investment securities available-for sale: |            |         |                          |       |            |         |
| Change in net unrealized gains/losses<br>during period                        | \$(3,322 ) | \$1,794 | \$(1,307 )               | \$706 | \$(2,015 ) | \$1,088 |
| Reclassification adjustment for net (gains)<br>losses included in net income  | 8          | (30 )   | 3                        | (12 ) | 5          | (18 )   |
| Defined benefits post-retirement benefit plan:                                |            |         |                          |       |            |         |
| Change in net actuarial loss  | 33         | 33      | 13                       | 13    | 20         | 20      |
| Total other comprehensive income (loss)                                       | \$(3,281 ) | \$1,797 | \$(1,291 )               | \$707 | \$(1,990 ) | \$1,090 |

|  | Pre-tax  |            | Tax Expense<br>(Benefit) |            | Net of Tax |            |
|--|----------|------------|--------------------------|------------|------------|------------|
|  | 2014     | 2013       | 2014                     | 2013       | 2014       | 2013       |
| Nine Months Ended September 30,<br>Investment securities available-for sale: |          |            |                          |            |            |            |
| Change in net unrealized gains/losses<br>during period                       | \$13,844 | \$(39,547) | \$5,447                  | \$(15,562) | \$8,397    | \$(23,985) |
| Reclassification adjustment for net (gains)<br>losses included in net income | (80 )    | (26 )      | (32 )                    | (10 )      | (48 )      | (16 )      |
| Defined benefits post-retirement benefit<br>plan:                            |          |            |                          |            |            |            |
| Change in net actuarial loss   | 103      | 102        | 41                       | 40         | 62         | 62         |
| Total other comprehensive (loss) income                                      | \$13,867 | \$(39,471) | \$5,456                  | \$(15,532) | \$8,411    | \$(23,939) |

The components of accumulated other comprehensive loss, net of income tax benefits, are as follows:

|   | September 30,<br>2014 | December 31,<br>2013 |
|---|-----------------------|----------------------|
| Net unrealized gain on investment securities available-for-sale     | \$(6,229 )            | \$(14,578 )          |
| Net actuarial loss on defined benefit post-retirement benefit plans | (1,401 )              | (1,463 )             |
| Net accumulated other comprehensive loss                            | \$(7,630 )            | \$(16,041 )          |

(15) Fair Value Measurements

Financial assets and financial liabilities measured at fair value on a recurring basis are as follows:

| As of September 30, 2014                  | Balance | Fair Value Measurements at Reporting Date Using                         |  |  |
|---|---------|---|--|--|
|   |         | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Investment securities available-for-sale: |         |   |  |  |



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|  |           |      |           |      |
|--|-----------|------|-----------|------|
| Obligations of U.S. government agencies  | \$728,497 | \$ — | \$728,497 | \$ — |
| U.S. agencies mortgage-backed securities & collateralized mortgage obligations | 857,662   | —    | 857,662   | —    |
| Private mortgage-backed securities   | 344       | —    | 344       | —    |
| Mortgage servicing rights  | 27,292    | —    | 27,292    | —    |

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| As of December 31, 2013   | Balance   | Fair Value Measurements at Reporting Date Using                         |  |  |
|---|-----------|---|--|--|
|   |           | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Investment securities available-for-sale:   |           |   |  |  |
| Obligations of U.S. government agencies   | \$763,238 | \$ —  | \$763,238  | \$ —   |
| U.S. agencies mortgage-backed securities &<br>collateralized mortgage obligations | 1,184,053 | —   | 1,184,053  | —  |
| Private mortgage-backed securities  | 415       | —   | 415  | —  |
| Mortgage servicing rights   | 25,698    | —   | 25,698   | —  |

There were no changes in valuation methodologies or transfers between levels of the fair value hierarchy during the nine months ended September 30, 2014 or 2013.

The methodologies used by the Company in determining the fair values of each class of financial instruments are based primarily on the use of independent, market-based data to reflect a value that would be reasonably expected in an orderly transaction between market participants at the measurement date. The Company obtains fair value measurements for investment securities from an independent pricing service and evaluates mortgage servicing rights for impairment using an independent valuation service. The vendors chosen by the Company are widely recognized vendors whose evaluations support the pricing functions of financial institutions, investment and mutual funds, and portfolio managers. The Company has documented and evaluated the pricing methodologies used by the vendors and maintains internal processes that regularly test valuations. These internal processes include obtaining and reviewing available reports on internal controls, evaluating the prices for reasonableness given market changes, obtaining and evaluating the inputs used in the model for a sample of securities, investigating anomalies and confirming determinations through discussions with the vendor. For investment securities, if needed, a broker may be utilized to determine the reported fair value. Further details on the methods used to estimate the fair value of each class of financial instruments above are discussed below.

**Investment Securities Available-for-Sale.** The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the investment's terms and conditions, among other things.

**Mortgage Servicing Rights.** Mortgage servicing rights are initially recorded at fair value based on comparable market quotes and are amortized in proportion to and over the period of estimated net servicing income. Mortgage servicing rights are evaluated quarterly for impairment using an independent valuation service. The valuation service utilizes discounted cash flow modeling techniques, which consider observable data that includes market consensus prepayment speeds and the predominant risk characteristics of the underlying loans including loan type, note rate and loan term. Management believes the significant inputs utilized in the valuation model are observable in the market.

Additionally, from time to time, certain assets are measured at fair value on a non-recurring basis. Adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment.



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The following table presents information about the Company's assets and liabilities measured at fair value on a non-recurring basis.

| As of September 30, 2014                    | Balance  | Fair Value Measurements at Reporting Date Using                |   |   |
|---|----------|--|---|---|
|   |          | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans                              | \$41,996 | \$ —   | \$ —  | \$41,996                                  |
| Other real estate owned                     | 6,499    | —  | —   | 6,499                                     |
| Long-lived assets to be disposed of by sale | 1,186    | —  | —   | 1,186                                     |

| As of December 31, 2013                     | Balance  | Fair Value Measurements at Reporting Date Using                |   |   |
|---|----------|--|---|---|
|   |          | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans                              | \$57,302 | \$ —   | \$ —  | \$57,302                                  |
| Other real estate owned                     | 8,502    | —  | —   | 8,502                                     |
| Long-lived assets to be disposed of by sale | 1,186    | —  | —   | 1,186                                     |

Impaired Loans. Collateralized impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from collateral. The impaired loans are reported at fair value through specific valuation allowance allocations. In addition, when it is determined that the fair value of an impaired loan is less than the recorded investment in the loan, the carrying value of the loan is adjusted to fair value through a charge to the allowance for loan losses. Collateral values are estimated using independent appraisals and management estimates of current market conditions. As of September 30, 2014, certain impaired loans with a carrying value of \$57,086 were reduced by specific valuation allowance allocations of \$6,570 and partial loan charge-offs of \$8,520 resulting in a reported fair value of \$41,996. As of December 31, 2013, certain impaired loans with a carrying value of \$80,526 were reduced by specific valuation allowance allocations of \$8,929 and partial loan charge-offs of \$14,295 resulting in a reported fair value of \$57,302.

OREO. The fair values of OREO are estimated using independent appraisals and management estimates of current market conditions. Upon initial recognition, write-downs based on the foreclosed asset's fair value at foreclosure are reported through charges to the allowance for loan losses. Periodically, the fair value of foreclosed assets is remeasured with any subsequent write-downs charged to OREO expense in the period in which they are identified. Write-downs of \$87 during the nine months ended September 30, 2014 were based on management's estimate of the current fair value of the properties. Write-downs of \$2,564 during the nine months ended September 30, 2013, included \$196 directly related to receipt of updated appraisals and \$2,368 based on management estimates of the current fair value of properties.

Long-lived Assets to be Disposed of by Sale. Long-lived assets to be disposed of by sale are carried at the lower of carrying value or fair value less estimated costs to sell. The fair values of long-lived assets to be disposed of by sale are based upon observable market data and management estimates of current market conditions. As of September 30, 2014 and December 31, 2013, the Company had long-lived assets to be disposed of by sale with carrying values

aggregating \$1,785 that were reduced by write-downs of \$599 resulting in an aggregate fair value of \$1,186.

In addition, mortgage loans held for sale are required to be measured at the lower of cost or fair value. The fair value of mortgage loans held for sale is based upon binding contracts or quotes or bids from third party investors. As of September 30, 2014 and December 31, 2013, all mortgage loans held for sale were recorded at cost.

The Company is required to disclose the fair value of financial instruments for which it is practical to estimate fair value. The methodologies for estimating the fair value of financial instruments that are measured at fair value on a recurring or non-recurring basis are discussed above. The methodologies for estimating the fair value of other financial instruments are discussed below. For financial instruments bearing a variable interest rate where no credit risk exists, it is presumed that recorded book values are reasonable estimates of fair value.

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**Financial Assets.** Carrying values of cash, cash equivalents and accrued interest receivable approximate fair values due to the liquid and/or short-term nature of these instruments. Fair values for investment securities held-to-maturity are obtained from an independent pricing service, which considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the investment's terms and conditions, among other things. Fair values of fixed rate loans and variable rate loans that reprice on an infrequent basis are estimated by discounting future cash flows using current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality. Carrying values of variable rate loans that reprice frequently, and with no change in credit risk, approximate the fair values of these instruments.

**Financial Liabilities.** The fair values of demand deposits, savings accounts, securities sold under repurchase agreements and accrued interest payable are the amounts payable on demand at the reporting date. The fair values of fixed-maturity certificates of deposit are estimated using external market rates currently offered for deposits with similar remaining maturities. The carrying values of the interest bearing demand notes to the United States Treasury are deemed an approximation of fair values due to the frequent repayment and repricing at market rates. The fixed and floating rate subordinated debentures, floating rate subordinated term loan, notes payable to the FHLB, fixed rate subordinated term debt, and capital lease obligation are estimated by discounting future cash flows using current rates for advances with similar characteristics.

**Commitments to Extend Credit and Standby Letters of Credit.** The fair value of commitments to extend credit and standby letters of credit, based on fees currently charged to enter into similar agreements, is not significant.

The estimated fair values of financial instruments that are reported in the Company's consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, are as follows:

| As of September 30, 2014                 | Carrying Amount    | Estimated Fair Value | Fair Value Measurements at Reporting Date Using Quoted Prices |   |   |
|--|--------------------|----------------------|---|---|---|
|  |                    |                      | in Active Markets for Identical Assets (Level 1)              | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Financial assets:</b>                 |                    |                      |   |   |   |
| Cash and cash equivalents                | \$819,963          | \$819,963            | \$—   | \$819,963                                     | \$—                                       |
| Investment securities available-for-sale | 1,586,503          | 1,586,503            | —   | 1,586,503                                     | —   |
| Investment securities held-to-maturity   | 583,271            | 588,032              | —   | 588,032                                       | —   |
| Accrued interest receivable              | 30,282             | 30,282               | —   | 30,282  | —   |
| Mortgage servicing rights, net           | 13,894             | 27,292               | —   | 27,292  | —   |
| Net loans                                | 4,780,151          | 4,784,957            | —   | 4,742,961                                     | 41,996                                    |
| <b>Total financial assets</b>            | <b>\$7,814,064</b> | <b>\$7,837,029</b>   | <b>\$—</b>  | <b>\$7,795,033</b>                            | <b>\$41,996</b>                           |

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Financial liabilities:

|   |             |             |     |             |     |
|---|-------------|-------------|-----|-------------|-----|
| Total deposits, excluding time deposits           | \$5,705,490 | \$5,705,490 | \$— | \$5,705,490 | \$— |
| Time deposits                                     | 1,254,009   | 1,259,444   | —   | 1,259,444   | —   |
| Securities sold under repurchase agreements       | 432,478     | 432,478     | —   | 432,478     | —   |
| Other borrowed funds                              | 1,934       | 1,934       | —   | 1,934       | —   |
| Accrued interest payable                          | 5,569       | 5,569       | —   | 5,569       | —   |
| Long-term debt                                    | 36,882      | 36,524      | —   | 36,524      | —   |
| Subordinated debentures held by subsidiary trusts | 102,916     | 98,177      | —   | 98,177      | —   |
| Total financial liabilities                       | \$7,539,278 | \$7,539,616 | \$— | \$7,539,616 | \$— |

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| As of December 31, 2013                           | Carrying Amount | Estimated Fair Value | Fair Value Measurements at Reporting Date Using                |   |   |
|---|-----------------|----------------------|--|---|---|
|   |                 |                      | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial assets:                                 |                 |                      |  |   |   |
| Cash and cash equivalents                         | \$ 534,827      | \$ 534,827           | \$—  | \$ 534,827                                    | \$—                                       |
| Investment securities available-for-sale          | 1,947,706       | 1,947,706            | —  | 1,947,706                                     | —   |
| Investment securities held-to-maturity            | 203,837         | 205,926              | —  | 205,926                                       | —   |
| Accrued interest receivable                       | 26,450          | 26,450               | —  | 26,450  | —   |
| Mortgage servicing rights, net                    | 13,546          | 25,698               | —  | 25,698  | —   |
| Net loans   | 4,259,514       | 4,246,539            | —  | 4,189,237                                     | 57,302                                    |
| Total financial assets                            | \$ 6,985,880    | \$ 6,987,146         | \$—  | \$ 6,929,844                                  | \$ 57,302                                 |
| Financial liabilities:                            |                 |                      |  |   |   |
| Total deposits, excluding time deposits           | \$ 4,943,033    | \$ 4,943,033         | \$—  | \$ 4,943,033                                  | \$—                                       |
| Time deposits                                     | 1,190,717       | 1,196,250            | —  | 1,196,250                                     | —   |
| Securities sold under repurchase agreements       | 457,437         | 457,437              | —  | 457,437                                       | —   |
| Other borrowed funds                              | 3               | 3                    | —  | 3   | —   |
| Accrued interest payable                          | 4,963           | 4,963                | —  | 4,963   | —   |
| Long-term debt                                    | 36,917          | 34,508               | —  | 34,508  | —   |
| Subordinated debentures held by subsidiary trusts | 82,477          | 72,045               | —  | 72,045  | —   |
| Total financial liabilities                       | \$ 6,715,547    | \$ 6,708,239         | \$—  | \$ 6,708,239                                  | \$—                                       |

## (16) Related Party Transactions

During the nine months ended September 30, 2014, the Company repurchased an aggregate of 29,615 shares of its Class A common stock from two directors of the Company at a weighted average price of \$25.01 per share. The repurchases were made in privately negotiated transactions pursuant to a stock repurchase program approved by the Company's Board of Directors in November 2013. For additional information regarding the Company's stock repurchases, see Note 8, Capital Stock.

## (17) Recent Authoritative Accounting Guidance

ASU 2014-01 "Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects." The amendments in ASU 2014-01 permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The evaluation of whether conditions have been met to apply the



proportional amortization method is conducted at the time of initial investment and subsequently reevaluated if there is a change in the nature of the investment or a change in the relationship with the limited liability entity that could result in the conditions no longer being met. The decision to apply the proportional amortization method of accounting should be applied consistently to all qualifying affordable housing project investments rather than on an individual investment basis. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. The amendments in ASU 2014-01 are effective for the Company for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2014, with early adoption permitted.

The Company adopted the amendments in ASU 2014-01 effective January 1, 2014. As of September 30, 2014, the Company had four investments in qualified affordable housing projects with an aggregate carrying value of \$4,758 included in other assets on the Company's consolidated balance sheet. The Company elected to account for these investments using the proportional amortization method. During the three and nine months ended September 30, 2014, income tax benefits associated with these projects of \$7 and \$21 were recognized as a component of income tax expense.

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The Company has commitments to invest additional amounts in these projects of \$99 in 2014, \$5,604 in 2015, \$32 annually in 2016 through 2021, and \$21 annually in 2022 and 2023.

ASU 2014-04 "Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments in ASU 2014-04 clarify that an in-substance repossession or foreclosures occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosures or through a similar legal agreement. The amendments in ASU 2014-04 also require interim and annual disclosure of both (i) the amount of foreclosed residential real estate property held by the creditor and (ii) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments in ASU 2014-04 are effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014 using either a modified retrospective transition method or a prospective transition method. The Company does not expect the amendments in ASU 2014-04 to have a material impact on the Company's consolidated financial statements, results of operations or liquidity.

ASU 2014-09 "Revenue from Contracts with Customers." The amendments in ASU 2014-09 introduce a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in ASU 2014-09 are effective for the Company for fiscal years beginning after December 15, 2016, including interim periods within that reporting period, and may be adopted retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initial adoption recognized at the date of initial application. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements, results of operations or liquidity.

ASU 2014-11 "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The amendments in ASU 2014-11 expand secured borrowing treatment for certain repurchase agreements. Under the amendments in ASU 2014-11, repurchase-to-maturity transactions and repurchase agreements executed as repurchase financing transactions are required to be accounted for as secured borrowings. ASU 2014-11 requires additional disclosures about certain transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets through an agreement with the same counterparty. ASU 2014-11 also requires disclosure of the types of collateral pledged and liabilities associated with an entity's repurchase agreements, securities lending transactions and repurchase-to-maturity transactions accounted for as secured borrowings. The accounting changes included in the amendments in ASU 2014-11 are effective for the Company on January 1, 2015. The disclosure requirements set forth in the amendment in ASU 2014-11 are effective for the Company for interim and annual periods beginning after December 31, 2014. The Company does not expect the amendments in ASU 2014-11 to have a material impact on the Company's consolidated financial statements, results of operations or liquidity.

ASU 2014-12 "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period." ASU 2014-12 amends Accounting Standards Codification ("ASC") Topic 718, Compensation-Stock Compensation, to clarify that a performance target that affects the vesting of a share-based payment award and that could be achieved after the requisite service period should be treated as a performance condition that affects the vesting of the award. ASU 2014-12 further clarifies that the requisite service period ends when the employees can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The amendments in ASU 2014-12 may be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The amendments in ASU 2014-12 will not have a material impact on the Company's consolidated financial statements, results of operations or liquidity.

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ASU 2014-14 "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." ASU 2014-14 updates ASC Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors, to require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if (i) the loan has a government guarantee that is not separable from the loan before foreclosure; (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and, (iii) any amount of the claim that is determined on the basis of the fair value of the real estate is fixed at the time of foreclosure. ASU 2014-14 provides that, upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in ASU 2014-14 are effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014 and may adopted using either a prospective transition method or a modified retrospective transition method. The amendments in ASU 2014-12 will not have a material impact on the Company's consolidated financial statements, results of operations or liquidity.

(18) Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date financial statements were filed with the Securities and Exchange Commission. On October 27, 2014, the Company declared a quarterly dividend to common shareholders of \$0.16 per share, to be paid on November 17, 2014 to shareholders of record as of November 6, 2014.

See Note 11, Commitments and Contingencies, for information on subsequent events regarding legal proceedings.

No other events requiring recognition or disclosure were identified.

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013, including the audited financial statements contained therein, filed with the Securities and Exchange Commission, or SEC.

When we refer to "we," "our," and "us" in this report, we mean First Interstate BancSystem, Inc. and our consolidated subsidiaries, unless the context indicates that we refer only to the parent company, First Interstate BancSystem, Inc.

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

"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: continuing or worsening business and economic conditions, adverse economic conditions affecting Montana, Wyoming and western South Dakota, credit losses, lending risk, adequacy of the allowance for loan losses, impairment of goodwill, changes in interest rates, access to low-cost funding sources, dependence on the Company's management team, ability to attract and retain qualified employees, governmental regulation and changes in regulatory, tax and accounting rules and interpretations, failure of technology, inability to meet liquidity requirements, failure to manage growth, competition, ineffective internal operational controls, environmental remediation and other costs, reliance on external vendors, litigation pertaining to fiduciary responsibilities, failure to effectively implement technology-driven products and services, soundness of other financial institutions, inability of our bank subsidiary to pay dividends, implementation of new lines of business or new product or service offerings, change in dividend policy, volatility of Class A common stock, decline in market price of Class A common stock, dilution as a result of future equity issuances, uninsured nature of any investment in Class A common stock, voting control of Class B stockholders, anti-takeover provisions, controlled company status, and, subordination of common stock to Company debt.

A more detailed discussion of each of the foregoing risks is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 28, 2014. These factors and the other risk factors described in the Company's periodic and current reports filed with the SEC from time to time, however, are not necessarily all of the important factors that could cause the Company's actual results, performance or achievements to differ materially from those expressed in or implied by any of the Company's forward-looking statements. Other unknown or unpredictable factors also could harm the Company's results. Investors and others are encouraged to read the more detailed discussion of the Company's risks contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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 holding company headquartered in Billings, Montana. As of September 30, 2014, we had consolidated assets of \$8,481 million, deposits of \$6,959 million, loans of \$4,854 million and total stockholders' equity of \$886 million. We currently operate 80 banking offices, including detached drive-up facilities, in 41 communities located in Montana, Wyoming and western South Dakota. Through the our bank 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, tourism, agriculture, healthcare, professional services, education, governmental services, construction, mining, retail and wholesale trade.

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### Our Business

Our principal business activity is lending to and accepting deposits from 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.

### Recent Developments

On February 10, 2014, the Company entered into an agreement and plan of merger to acquire all of the outstanding stock of Mountain West Financial Corp., a Montana-based bank holding company that operates one wholly-owned subsidiary bank, Mountain West Bank, NA, or MWB, with branches located in five of the Company's current market areas in Montana. The acquisition was completed on July 31, 2014, and the Company merged MWB with its existing bank subsidiary, FIB, on October 17, 2014.

Consideration for the acquisition was \$74.5 million and consisted of cash of \$38.5 million and the issuance of 1,378,230 shares of the Company's Class A common stock valued at \$26.10 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock market on the acquisition date. As of the acquisition date, Mountain West Financial Corp. had total assets with fair values of \$612 million, total loans with fair values of \$360 million and deposits with fair values of \$515 million. In conjunction with the acquisition, the Company recorded provisional goodwill of \$21 million and core deposit intangible assets of \$11 million. For additional information regarding the acquisition, see "Note 2 – Acquisition" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in 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 on a monthly basis at our holding company, at the Bank and at each banking office. We evaluate the levels and trends of the line items included in our balance sheet and statements of income, as well as various financial ratios that are commonly used in our industry. We analyze these ratios and financial trends against both our own historical levels and the financial condition and performance of comparable banking institutions in our region and nationally.

### Results of Operations

Principal factors used in managing and evaluating our results of operations include return on average assets, net interest income, non-interest income, non-interest expense and net income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the volume and composition of interest earning assets and interest bearing liabilities. The most significant impact on our net interest income between periods is derived from the interaction of changes in the rates earned or paid on interest earning assets and interest bearing liabilities, which we refer to as interest rate spread. The volume of loans, investment securities and other interest earning assets, compared to the volume of interest bearing deposits and indebtedness, combined with the interest rate spread, produces changes in our net interest income between periods. Non-interest bearing sources of funds, such as demand deposits and stockholders' equity, also support earning assets. The impact of free funding sources is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. We evaluate our net interest income on factors that include the yields on our loans and other earning assets, the costs of our deposits and other funding sources, the levels of our net interest spread and net interest margin and the provisions for loan losses required to maintain our allowance for loan losses at an adequate level.

We evaluate our non-interest income relative to the trends of the individual types of non-interest income and seek to increase our non-interest income over time.



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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 grow 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 other real estate owned, or OREO, and loan charge-offs as a percentage of average loans. We 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, the levels of non-performing, criticized and classified loans and potential charge-offs.

We 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 to our total deposits and our reliance on brokered deposits or other wholesale funding sources, such as borrowings from other banks or agencies. We 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.

Additionally, we 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. The most significant accounting policies we follow are summarized in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

#### Allowance for Loan Losses

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

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

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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. Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013 describes 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 "Asset Quality."

## 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. Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013 describes our accounting policy with regard to goodwill.

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

## 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.

## Results of Operations

The following discussion and analysis is intended to provide greater details of the results of our operations and financial condition.

**Net Interest Income.** Our net interest income on a fully taxable equivalent, or FTE, basis increased \$6.1 million, or 10.1%, to \$66.1 million during the three months ended September 30, 2014, as compared to \$60.1 million for the same period in 2013 and \$5.8 million, or 3.2%, to \$186.2 million during the nine months ended September 30, 2014, as compared to \$180.4 million for the same period in 2013. Approximately \$4.5 million of the quarter-to-date and year-to-date increases were attributable to the net interest income of MWB. Included in MWB net interest income was \$1.3 million of interest accretion related to the fair valuation of acquired loans, \$745 thousand of which was the result of early loan payoffs. Additionally, net FTE interest income was positively impacted by recoveries of previously charged-off interest of \$732 thousand and \$2.6 million during the three and nine months ended September 30, 2014, respectively, compared to \$19 thousand and \$781 thousand during the same respective periods in 2013. Also contributing to the increase in net FTE interest income was a decrease in our funding costs to 0.26% and 0.27% for the three and nine months ended September 30, 2014, respectively, as compared to 0.30% and 0.32% during the same respective period in 2013.

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Our net FTE interest margin ratio increased to 3.55% for the three months ended September 30, 2014, as compared to 3.52% for the same period in 2013, and remained stable at 3.54% for each the nine months ended September 30, 2014 and 2013. Exclusive of the fair value accretion resulting from the early payoff of acquired loans and recoveries of previously charged-off interest, our net interest margin ratio decreased to 3.47% during each of the three and nine month periods ended September 30, 2014, as compared to 3.52% and 3.53% during the same respective periods in 2013.

The following tables present, 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)

|   | Three Months Ended September 30, |          |              |      |                 |          |              |   |
|---|----------------------------------|----------|--------------|------|-----------------|----------|--------------|---|
|   | 2014                             |          |              | 2013 |                 |          |              |   |
|   | Average Balance                  | Interest | Average Rate |      | Average Balance | Interest | Average Rate |   |
| Interest earning assets:  |                                  |          |              |      |                 |          |              |   |
| Loans (1) (2)   | \$4,751,928                      | \$61,445 | 5.13         | %    | \$4,327,995     | \$55,345 | 5.07         | % |
| Investment securities (2)   | 2,094,449                        | 8,953    | 1.70         |      | 2,115,301       | 9,479    | 1.78         |   |
| Interest bearing deposits in banks                                | 548,794                          | 374      | 0.27         |      | 323,781         | 207      | 0.25         |   |
| Federal funds sold  | 1,909                            | 3        | 0.62         |      | 4,772           | 8        | 0.67         |   |
| Total interest earnings assets                                    | 7,397,080                        | 70,775   | 3.80         |      | 6,771,849       | 65,039   | 3.81         |   |
| Non-earning assets  | 753,324                          |          |              |      | 602,316         |          |              |   |
| Total assets  | \$8,150,404                      |          |              |      | \$7,374,165     |          |              |   |
| Interest bearing liabilities:                                     |                                  |          |              |      |                 |          |              |   |
| Demand deposits   | \$2,100,931                      | \$532    | 0.10         | %    | \$1,748,317     | \$504    | 0.11         | % |
| Savings deposits  | 1,751,595                        | 616      | 0.14         |      | 1,568,744       | 601      | 0.15         |   |
| Time deposits   | 1,217,023                        | 2,339    | 0.76         |      | 1,260,452       | 2,716    | 0.85         |   |
| Repurchase agreements   | 439,739                          | 52       | 0.05         |      | 418,561         | 58       | 0.05         |   |
| Other borrowed funds  | 1,781                            | 27       | 6.01         |      | 10              | —        | —            |   |
| Long-term debt  | 36,886                           | 482      | 5.18         |      | 37,132          | 487      | 5.20         |   |
| Subordinated debentures held by subsidiary trusts                 | 89,142                           | 598      | 2.66         |      | 82,477          | 607      | 2.92         |   |
| Total interest bearing liabilities                                | 5,637,097                        | 4,646    | 0.33         |      | 5,115,693       | 4,973    | 0.39         |   |
| Non-interest bearing deposits                                     | 1,570,121                        |          |              |      | 1,428,099       |          |              |   |
| Other non-interest bearing liabilities                            | 54,722                           |          |              |      | 51,564          |          |              |   |
| Stockholders' equity  | 888,464                          |          |              |      | 778,809         |          |              |   |
| Total liabilities and stockholders' equity                        | \$8,150,404                      |          |              |      | \$7,374,165     |          |              |   |
| Net FTE interest income   |                                  | 66,129   |              |      |                 | 60,066   |              |   |
| Less FTE adjustments (2)  |                                  | (1,047)  | )            |      |                 | (1,110)  | )            |   |
| Net interest income from consolidated statements of income        |                                  | \$65,082 |              |      |                 | \$58,956 |              |   |
| Interest rate spread  |                                  |          | 3.47         | %    |                 |          | 3.42         | % |
| Net FTE interest margin (3)                                       |                                  |          | 3.55         | %    |                 |          | 3.52         | % |
| Cost of funds, including non-interest bearing demand deposits (4) |                                  |          | 0.26         | %    |                 |          | 0.30         | % |

(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 FTE basis.

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

(4) Calculated by dividing total annualized interest on interest bearing liabilities by the sum of total interest bearing liabilities plus non-interest bearing deposits.

Table of ContentsAverage Balance Sheets, Yields and Rates  
(Dollars in thousands)

|   | Nine Months Ended September 30, |           |                 |      |                    |           |                 |   |
|---|---------------------------------|-----------|-----------------|------|--------------------|-----------|-----------------|---|
|   | 2014                            |           |                 | 2013 |                    |           |                 |   |
|   | Average<br>Balance              | Interest  | Average<br>Rate |      | Average<br>Balance | Interest  | Average<br>Rate |   |
| Interest earning assets:  |                                 |           |                 |      |                    |           |                 |   |
| Loans (1) (2)   | \$4,512,726                     | \$171,656 | 5.09            | %    | \$4,267,576        | \$166,530 | 5.22            | % |
| Investment securities (2)   | 2,098,125                       | 27,341    | 1.74            |      | 2,157,373          | 29,045    | 1.80            |   |
| Interest bearing deposits in banks                                | 425,489                         | 830       | 0.26            |      | 378,239            | 717       | 0.25            |   |
| Federal funds sold  | 1,658                           | 7         | 0.56            |      | 3,547              | 17        | 0.64            |   |
| Total interest earnings assets                                    | 7,037,998                       | 199,834   | 3.80            |      | 6,806,735          | 196,309   | 3.86            |   |
| Non-earning assets  |                                 |           |                 |      |                    |           |                 |   |
| Total assets  | \$7,733,922                     |           |                 |      | \$7,407,291        |           |                 |   |
| Interest bearing liabilities:                                     |                                 |           |                 |      |                    |           |                 |   |
| Demand deposits   | \$1,940,007                     | \$1,556   | 0.11            | %    | \$1,733,161        | \$1,453   | 0.11            | % |
| Savings deposits  | 1,681,782                       | 1,810     | 0.14            |      | 1,554,581          | 1,853     | 0.16            |   |
| Time deposits   | 1,179,735                       | 6,872     | 0.78            |      | 1,312,465          | 8,908     | 0.91            |   |
| Repurchase agreements   | 444,952                         | 181       | 0.05            |      | 465,415            | 232       | 0.07            |   |
| Other borrowed funds  | 475                             | 27        | 7.60            |      | 9                  | —         | —               |   |
| Long-term debt  | 36,897                          | 1,431     | 5.19            |      | 37,142             | 1,450     | 5.22            |   |
| Preferred stock pending redemption                                | —                               | —         | —               |      | 3,114              | 159       | 6.83            |   |
| Subordinated debentures held by subsidiary trusts                 | 84,723                          | 1,778     | 2.81            |      | 82,477             | 1,904     | 3.09            |   |
| Total interest bearing liabilities                                | 5,368,571                       | 13,655    | 0.34            |      | 5,188,364          | 15,959    | 0.41            |   |
| Non-interest bearing deposits                                     | 1,473,003                       |           |                 |      | 1,394,468          |           |                 |   |
| Other non-interest bearing liabilities                            | 49,879                          |           |                 |      | 51,557             |           |                 |   |
| Stockholders' equity  | 842,469                         |           |                 |      | 772,902            |           |                 |   |
| Total liabilities and stockholders' equity                        | \$7,733,922                     |           |                 |      | \$7,407,291        |           |                 |   |
| Net FTE interest income   |                                 | 186,179   |                 |      |                    | 180,350   |                 |   |
| Less FTE adjustments (2)  |                                 | (3,234 )  |                 |      |                    | (3,357 )  |                 |   |
| Net interest income from consolidated statements of income        |                                 | \$182,945 |                 |      |                    | \$176,993 |                 |   |
| Interest rate spread  |                                 |           | 3.46            | %    |                    |           | 3.45            | % |
| Net FTE interest margin (3)                                       |                                 |           | 3.54            | %    |                    |           | 3.54            | % |
| Cost of funds, including non-interest bearing demand deposits (4) |                                 |           | 0.27            | %    |                    |           | 0.32            | % |

(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 FTE basis.

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

(4) Calculated by dividing total annualized interest on interest bearing liabilities by the sum of total interest bearing liabilities plus non-interest bearing deposits.





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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)                            | Three Months Ended September<br>30, 2014 |       |         | Nine Months Ended September<br>30, 2014 |           |         |
|---|--|-------|---------|---|-----------|---------|
|   | compared with                            |       |         | compared with                           |           |         |
|   | Three Months Ended September<br>30, 2013 |       |         | Nine Months Ended September<br>30, 2013 |           |         |
|   | Volume                                   | Rate  | Net     | Volume                                  | Rate      | Net     |
| <b>Interest earning assets:</b>                   |  |       |         |   |           |         |
| Loans (1)   | \$5,421                                  | \$679 | \$6,100 | \$9,566                                 | \$(4,440) | \$5,126 |
| Investment securities (1)                         | (93)                                     | (433) | (526)   | (798)                                   | (906)     | (1,704) |
| Interest bearing deposits in banks                | 144                                      | 23    | 167     | 90                                      | 23        | 113     |
| Federal funds sold                                | (5)                                      | —     | (5)     | (9)                                     | (1)       | (10)    |
| Total change                                      | 5,467                                    | 269   | 5,736   | 8,849                                   | (5,324)   | 3,525   |
| <b>Interest bearing liabilities:</b>              |  |       |         |   |           |         |
| Demand deposits                                   | 102                                      | (74)  | 28      | 173                                     | (70)      | 103     |
| Savings deposits                                  | 70                                       | (55)  | 15      | 152                                     | (195)     | (43)    |
| Time deposits                                     | (94)                                     | (283) | (377)   | (901)                                   | (1,135)   | (2,036) |
| Repurchase agreements                             | 3  | (9)   | (6)     | (10)                                    | (41)      | (51)    |
| Other borrowed funds                              | —  | 27    | 27      | —                                       | 27        | 27      |
| Long-term debt                                    | (3)                                      | (2)   | (5)     | (10)                                    | (9)       | (19)    |
| Preferred stock pending redemption                | —  | —     | —       | (159)                                   | —         | (159)   |
| Subordinated debentures held by subsidiary trusts | 49                                       | (58)  | (9)     | 52                                      | (178)     | (126)   |
| Total change                                      | 127                                      | (454) | (327)   | (703)                                   | (1,601)   | (2,304) |
| Increase (decrease) in FTE net interest income    | \$5,340                                  | \$723 | \$6,063 | \$9,552                                 | \$(3,723) | \$5,829 |

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

**Provision for Loan Losses.** During the three months ended September 30, 2014, we recorded a provision for loan losses of \$261 thousand, as compared to a reversal of provision for loan losses of \$3.0 million recorded during the same period in 2013. This increase in provision resulted from higher levels of net loan charge-offs during third quarter 2014.

For the nine months ended September 30, 2014, we reversed provision for loan losses of \$6.7 million, as compared to the reversal of provisions for loan losses of \$2.1 million during the same period in 2013. Higher reversals of provision recorded during the nine months ended September 30, 2014, as compared to the same period in 2013, were primarily due to the combined impact of reductions in specific reserves on impaired loans and lower general reserves reflective of improvement in economic conditions in our market areas, 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. For information regarding our non-performing loans, see “Non-Performing Assets” included herein.

Non-interest Income. Our principal sources of non-interest income include other service charges, commissions and fees; income from the origination and sale of loans; wealth management revenues; and, service charges on deposit accounts. Non-interest income increased \$1.8 million, or 6.4%, to \$29.4 million for the three months ended September 30, 2014, as compared to \$27.6 million for the same period in 2013, and decreased \$6.0 million, or 6.9%, to \$80.0 million for the nine months ended September 30, 2014, as compared to \$86.0 million for the same period in 2013. Significant components of these fluctuations are discussed below.

Other service charges, commissions and fees primarily include debit and credit card interchange income, mortgage loan servicing fee income, insurance and other commissions and ATM service charge revenues. Other service charges, commissions and fees increased \$1.2 million, or 12.6%, to \$10.5 million during the three months ended September 30, 2014, as compared to \$9.3 million for the same period in 2013, and increased \$2.8 million, or 10.5%, to \$29.3 million for the nine months ended September 30, 2014, as compared to \$26.5 million during the same period in 2013. These increases were primarily due to increases in interchange revenue due to higher debit and credit card transaction volumes and increases in mortgage loan servicing fee income resulting from an increase in the number of loans serviced.

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Income from the origination and sale of loans decreased \$588 thousand, or 7.4%, to \$7.3 million during the three months ended September 30, 2014, compared to \$7.9 million during the same period in 2013. For the nine months ended September 30, 2014, income from the origination and sale of loans decreased \$10.3 million, or 35.8%, to \$18.4 million, as compared to \$28.7 million for the same period in 2013. These decreases are primarily the result of lower demand for refinancing loans in our market areas. Our total mortgage loans production decreased approximately 26% during the nine months ended September 30, 2014, as compared to the same period in 2013, with loans originated for home purchases accounting for approximately 76% of our mortgage loan production, as compared to approximately 51% during the same period in 2013.

Wealth management revenues are comprised principally of fees earned for management of trust assets and investment services revenues. Fees earned for management of trust assets are generally based on the market value of assets managed. Wealth management revenues increased \$576 thousand, or 12.6%, to \$5.2 million during the three months ended September 30, 2014, as compared to \$4.6 million during the same period in 2013. Exclusive of one-time close-out fees related to the settlement of three estates of \$407 thousand recognized during third quarter 2014 and one-time revenues of \$370 thousand from the sale of two multi-million dollar life insurance contracts recognized during third quarter 2013, wealth management revenues increased \$511 thousand, or 12.1%, to \$4.8 million for the three months ended September 30, 2014, as compared to \$4.2 million during the same period in 2013. Approximately \$200 thousand of this increase is due to the implementation of new fee schedules which became effective on July 1, 2014. The remaining increase was due to the combined effects the addition of new wealth management customers and increases in the market values of new and existing assets under trust management.

Wealth management revenues increased \$1.5 million, or 11.7%, to \$14.2 million for the nine months ended September 30, 2014, as compared to \$12.7 million for the same period in 2013, primarily due to the combined effects the addition of new wealth management customers and increases in the market values of new and existing assets under trust management.

Other income increased \$663 thousand, or 46.8%, to \$2.1 million during the three months ended September 30, 2014, as compared to \$1.4 million during the same period in 2013, and \$583 thousand, or 11.0%, to \$5.9 million during the nine months ended September 30, 2014, as compared to \$5.3 million during the same period in 2013. These increases were primarily due to income earned on \$60.0 million of life insurance purchased during the fourth quarter of 2013 and first quarter 2014.

Non-interest Expense. Non-interest expense increased \$12.4 million, or 23.5%, to \$65.0 million for the three months ended September 30, 2014, as compared to \$52.6 million for the same period in 2013, and increased \$10.9 million, or 6.7% to \$175.2 million for the nine months ended September 30, 2014, as compared to \$164.3 million for the same period in 2013. Significant components of these increases are discussed below.

Salaries and wages expense increased \$3.1 million, or 13.6%, to \$25.9 million during the three months ended September 30, 2014, as compared to \$22.8 million during the same period in 2013. Salaries and wages expense increased \$3.1 million, or 4.5%, to \$72.8 million during the nine months ended September 30, 2014, as compared to \$69.7 million during the same period in 2013. Approximately \$1.2 million of the quarter-to-date and year-to-date increases were attributable to the acquisition of MWB on July 31, 2014. The remaining increases were primarily due to lower deferred loan origination costs, inflationary wage increases and higher commissions expense.

Employee benefits expense increased \$513 thousand, or 7.0%, to \$7.8 million for the three months ended September 30, 2014, as compared to \$7.3 million during the same period in 2013, and increased \$269 thousand, or 1.2%, to \$23.3 million during the nine months ended September 30, 2014, as compared to \$23.0 million during the same period in 2013. Approximately \$362 thousand of these increases were attributable to the acquisition of MWB on July 31, 2014.

The remaining increase in employee benefits expense during the three months ended September 30, 2014, as compared to the same period in 2013, was due to increases in earnings on securities held under deferred compensation plans.

FDIC insurance premiums remained flat at \$1.2 million during the three months ended September 30, 2014 and 2013, and decreased \$557 thousand, or 14.1%, to \$3.4 million during the nine months ended September 30, 2014, as compared to \$3.9 million for the same period in 2013. Increases of \$80 thousand in FDIC insurance assessments due to the acquisition of MWB on July 31, 2014, were more than offset by lower assessment rates reflective of improved credit quality.

In conjunction with the acquisition of MWB on July 31, 2014, we recorded core deposit intangible assets of \$11.0 million, which are being amortized using an accelerated method over the estimated useful lives of the related deposits of ten years. Accordingly, core deposit intangible amortization expense increased \$333 thousand, or 93.8%, to \$688 thousand during the three months ended September 30, 2014, as compared to \$355 thousand during the same period in 2013, and increased \$332 thousand, or 31.2%, to \$1.4 million during the nine months ended September 30, 2014, as compared to \$1.1 million during the same period in 2013.

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During the three and nine months ended September 30, 2014, we recorded \$5.1 million and \$5.6 million, respectively, of acquisition and litigation expenses that we consider to be non-core. Non-core acquisition-related expenses of \$1.0 million and \$1.6 million for the three and nine months ended September 30, 2014, respectively, include legal and professional fees, employee retention payments and travel expenses related to the MWB acquisition in July 2014. For additional information regarding the acquisition, see "Recent Developments" included herein and "Note 2 – Acquisition" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report. In addition, during third quarter 2014 we recorded non-core litigation expense of \$4.0 million related to a non-final judgment entered against us in an on-going lender liability lawsuit. For additional information regarding this pending litigation, see "Note 11- Commitments and Contingencies" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report.

Other expense increased \$2.9 million, or 31.1%, to \$12.4 million during the three months ended September 30, 2014, as compared to \$9.4 million during the same period in 2013, and increased \$2.0 million, or 6.2%, to \$33.7 million for the nine months ended September 30, 2014, as compared to \$31.7 million for the same period in 2013. Approximately \$1.1 million of the quarter-to-date and year-to-date increases were attributable to the operating expenses of MWB, which was acquired on July 31, 2014. Also contributing to the quarter-to-date and year-to-date increases in other expense were higher levels of fraud losses resulting from recent payment data system breaches at major retailers. Fraud losses were \$484 thousand and \$946 thousand during the three and nine months ended September 30, 2014, respectively, as compared to \$132 thousand and \$435 thousand during the same respective periods in 2013.

**Income Tax Expense.** Our effective federal income tax rate was 30.6% for the nine months ended September 30, 2014 and 30.9% for the nine months ended September 30, 2013. State income tax applies primarily to pretax earnings generated within Montana and South Dakota. Our effective state tax rate was 4.2% for the nine months ended September 30, 2014 and 4.3% for the nine months ended September 30, 2013.

**Financial Condition**

Total assets increased \$917 million, or 12.1%, to \$8,481 million as of September 30, 2014, from \$7,565 million as of December 31, 2013. Significant components of the increase are discussed below.

**Loans.** Total loans increased \$509 million, or 11.7%, to \$4,854 million as of September 30, 2014, from \$4,345 million as of December 31, 2013. Approximately \$360 million of the increase in total loans was attributable to the acquisition of MWB. Exclusive of the acquired loans, as of September 30, 2014, total loans increased \$149 million, or 3.4%, compared to December 31, 2013, with the most notable organic growth occurring in residential real estate and consumer loans.

Consumer loans increased \$74 million, or 11.0%, to \$745 million as of September 30, 2014, from \$672 million as of December 31, 2013, with approximately \$9 million of the increase attributable to the MWB acquisition. Exclusive of the MWB acquisition, consumer loans grew \$65 million, or 9.6%, primarily due to increases in indirect consumer loans. Indirect consumer loans increased \$62 million, or 13.0%, to \$538 million as of September 30, 2014, from \$476 million as of December 31, 2013, due to continued expansion of the Company's indirect lending program within existing markets and increases in the average loan amounts advanced.

Residential real estate loans grew \$89 million, or 10.3%, to \$957 million as of September 30, 2014, from \$868 million as of December 31, 2013, with approximately \$48 million of the increase attributable to the MWB acquisition. Exclusive of the MWB acquisition, residential real estate loans grew \$41 million, or 4.7%, primarily due to increased origination of five to fifteen year adjustable rate and conventional 1-4 family residential real estate loans not meeting the requirements for sale on the secondary market. During the nine months of 2014, substantially all of the Company's

conforming residential loan production was sold to investors in the secondary market.

Commercial real estate loans grew \$237 million, or 16.4%, to \$1,687 million as of September 30, 2014, from \$1,449 million as of December 31, 2013, with all of the increase attributable to the MWB acquisition.

Construction loans grew organically \$16 million, or 4.5%, to \$367 million as of September 30, 2014, from \$352 million as of December 31, 2013. Increases of \$16 million and \$12 million in commercial and residential construction loans, respectively, were partially offset by decreases of \$12 million in land acquisition and development loans.

Agricultural loans increased \$25 million, or 22.1%, to \$137 million as of September 30, 2014, from \$112 million as of December 31, 2013, with approximately \$2 million of the increase attributable to the MWB acquisition. The remaining growth was primarily due to seasonal increases in credit lines that typically occur during the second and third quarters of the year.

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Agricultural real estate loans decreased \$15 million, or 8.4%, to \$159 million as of September 30, 2014, from \$174 million as of December 31, 2013, primarily due to first quarter 2014 scheduled repayments of the loans of one borrower.

Non-performing Assets. Non-performing assets include non-accrual loans, loans contractually past due 90 days or more and still accruing interest and OREO. The following table sets forth information regarding non-performing assets as of the dates indicated:

Nonperforming Assets and Troubled Debt Restructurings

| (Dollars in thousands)                          | September 30,<br>2014 | June 30,<br>2014 | March 31,<br>2014 | December 31,<br>2013 | September 30,<br>2013 |   |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Non-performing loans:                           |                       |                  |                   |                      |                       |   |
| Non-accrual loans                               | \$71,915              | \$79,166         | \$88,114          | \$94,439             | \$94,015              |   |
| Accruing loans past due 90 days or more         | 1,348                 | 1,494            | 1,664             | 2,232                | 2,188                 |   |
| Total non-performing loans                      | 73,263                | 80,660           | 89,778            | 96,671               | 96,203                |   |
| OREO  | 18,496                | 16,425           | 16,594            | 15,504               | 18,537                |   |
| Total non-performing assets                     | \$91,759              | \$97,085         | \$106,372         | \$112,175            | \$114,740             |   |
| Troubled debt restructurings not included above | \$20,956              | \$23,531         | \$19,687          | \$21,780             | \$21,939              |   |
| Non-performing loans to total loans             | 1.51                  | % 1.79           | % 2.06            | % 2.22               | % 2.22                | % |
| Non-performing assets to total loans and OREO   | 1.88                  | % 2.15           | % 2.43            | % 2.57               | % 2.64                | % |
| Non-performing assets to total assets           | 1.08                  | % 1.27           | % 1.40            | % 1.48               | % 1.53                | % |

Non-performing loans. Non-performing loans include non-accrual loans and loans contractually past due 90 days or more. We monitor and evaluate collateral values on non-performing loans quarterly. Appraisals are required on all non-performing 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.

The following table sets forth the allocation of our non-performing loans among our various loan categories as of the dates indicated:

Non-Performing Loans by Loan Type

| (Dollars in thousands) | September 30,<br>2014 | Percent<br>of Total | December 31,<br>2013 | Percent<br>of Total |
|------------------------|-----------------------|---------------------|----------------------|---------------------|
| Real estate:           |                       |                     |                      |                     |
| Commercial             | \$35,802              | 48.9 %              | \$48,955             | 50.7 %              |

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|                                  |          |       |   |          |       |   |
|----------------------------------|----------|-------|---|----------|-------|---|
| Construction:                    |          | .     |   |          |       |   |
| Land acquisition and development | 9,915    | 13.6  | % | 16,307   | 16.9  | % |
| Commercial                       | 2,569    | 3.5   | % | 225      | 0.2   | % |
| Residential                      | 238      | 0.3   | % | 1,372    | 1.4   | % |
| Total construction               | 12,722   | 17.4  | % | 17,904   | 18.5  | % |
| Residential                      | 3,274    | 4.5   | % | 7,276    | 7.5   | % |
| Agricultural                     | 6,849    | 9.3   | % | 8,574    | 8.9   | % |
| Total real estate                | 58,647   | 80.1  | % | 82,709   | 85.6  | % |
| Consumer                         | 1,286    | 1.8   | % | 1,350    | 1.4   | % |
| Commercial                       | 12,854   | 17.5  | % | 12,487   | 12.9  | % |
| Agricultural                     | 475      | 0.6   | % | 125      | 0.1   | % |
| Other                            | 1        | —     | % | —        | —     | % |
| Total non-performing loans       | \$73,263 | 100.0 | % | \$96,671 | 100.0 | % |



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Non-accrual loans. We generally place loans, excluding acquired credit impaired loans, on non-accrual when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on non-accrual status, any interest previously accrued but not collected is reversed from income. If all loans on non-accrual had been current in accordance with their original terms, gross income of approximately \$3.2 million and \$3.9 million would have been accrued for the nine months ended September 30, 2014 and 2013, respectively.

Non-accrual loans, the largest component of non-performing loans, decreased \$23 million, or 23.9%, to \$72 million as of September 30, 2014, from \$94 million as of December 31, 2013, primarily due to pay-downs and the movement of non-accrual loans out of the loan portfolio through foreclosure or charge-off.

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 \$3.0 million, or 19.3%, to \$18 million as of September 30, 2014, from \$15 million as of December 31, 2013, with approximately \$4 million of the increase attributable to the MWB acquisition. Exclusive of OREO acquired in the the MWB acquisition, during the nine months ended September 30, 2014, we recorded OREO additions of \$5 million and sold OREO with a book value of \$5 million at a net gain of \$1.3 million. As of September 30, 2014, the composition of OREO properties was 41% land and land development, 34% commercial, 23% residential real estate and 2% agricultural.

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."

The allowance for loan losses is increased by provisions charged against earnings and net recoveries of charged-off loans and is reduced by negative provisions credited to earnings and net loan charge-offs. 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.

Historical valuation allowances based on loan loss experience for similar loans with similar characteristics and trends. Historical valuation allowances are determined by applying percentage loss factors to the credit exposures from outstanding loans. For commercial, agricultural and real estate loans, loss factors are applied based on the (2) internal risk classifications of these loans. For consumer loans, loss factors are applied on a portfolio basis. For commercial, agriculture and real estate loans, loss factor percentages are based on a migration analysis of our historical loss experience, designed to account for credit deterioration. For consumer loans, loss factor percentages are based on a one-year loss history.

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General valuation allowances determined based on changes in the nature of the loan portfolio, overall portfolio (3) 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.

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 September 30, 2014, management determined that no allowance for loan losses related to acquired loans was required 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.

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The following table sets forth information regarding our allowance for loan losses as of and for the periods indicated.  
Allowance for Loan Losses

| (Dollars in thousands)                             | Three Months Ended    |                  |                   |                      |                       |   |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
|  | September 30,<br>2014 | June 30,<br>2014 | March 31,<br>2014 | December 31,<br>2013 | September 30,<br>2013 |   |
| Balance at beginning of period                     | \$78,266              | \$81,371         | \$85,339          | \$92,990             | \$98,528              |   |
| Provision charged to operating expense             | 261                   | (2,001)          | (5,000)           | (4,000)              | (3,000)               |   |
| Charge offs:                                       |                       |                  |                   |                      |                       |   |
| Real estate  |                       |                  |                   |                      |                       |   |
| Commercial   | 41                    | 699              | 817               | 761                  | 1,319                 |   |
| Construction                                       | 20                    | 48               | 152               | 960                  | 385                   |   |
| Residential  | 84                    | 409              | 114               | 203                  | 424                   |   |
| Agricultural                                       | 2                     | 2                | 2                 | 1                    | 2                     |   |
| Consumer   | 1,437                 | 934              | 846               | 1,168                | 1,083                 |   |
| Commercial   | 4,678                 | 534              | 796               | 2,589                | 1,703                 |   |
| Agricultural                                       | —                     | —                | 64                | —                    | —                     |   |
| Other  | 12                    | —                | —                 | —                    | —                     |   |
| Total charge-offs                                  | 6,274                 | 2,626            | 2,791             | 5,682                | 4,916                 |   |
| Recoveries:  |                       |                  |                   |                      |                       |   |
| Real estate  |                       |                  |                   |                      |                       |   |
| Commercial   | 181                   | 167              | 159               | 290                  | 500                   |   |
| Construction                                       | 728                   | 458              | 87                | 215                  | 878                   |   |
| Residential  | 88                    | 26               | 120               | 248                  | 20                    |   |
| Agricultural                                       | 2                     | —                | 1                 | —                    | 1                     |   |
| Consumer   | 495                   | 558              | 608               | 431                  | 484                   |   |
| Commercial   | 484                   | 313              | 2,822             | 847                  | 474                   |   |
| Agricultural                                       | —                     | —                | 26                | —                    | 21                    |   |
| Total recoveries                                   | 1,978                 | 1,522            | 3,823             | 2,031                | 2,378                 |   |
| Net charge-offs                                    | 4,296                 | 1,104            | (1,032)           | 3,651                | 2,538                 |   |
| Balance at end of period                           | \$74,231              | \$78,266         | \$81,371          | \$85,339             | \$92,990              |   |
| Period end loans                                   | \$4,854,382           | \$4,506,362      | \$4,364,838       | \$4,344,853          | \$4,332,092           |   |
| Average loans                                      | 4,751,928             | 4,436,786        | 4,344,993         | 4,323,504            | 4,327,995             |   |
| Net loans charged-off to average loans, annualized | 0.36                  | % 0.10           | % (0.10)          | % 0.34               | % 0.23                | % |
| Allowance to period end loans                      | 1.53                  | % 1.74           | % 1.86            | % 1.96               | % 2.15                | % |

Our allowance for loan losses as a percentage of period end loans decreased to 1.53% as of September 30, 2014, from 1.74% as of June 30, 2014, due to the acquisition of MWB loans, which were initially recorded at fair value with no carryover of the related allowance for loan losses.

Although we have established our allowance for loan losses in accordance with accounting principles generally accepted in the United States and we believe that our allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times, 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.

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. Investment securities increased \$18 million, or less than 1.0%, to \$2,170 million, or 25.6% of total assets, as of September 30, 2014, from \$2,152 million, or 28.4% of total assets, as of December 31, 2013. In conjunction with the July 31, 2014 acquisition of MWB, we acquired investment securities with fair values aggregating \$105 million at the date of acquisition. Approximately \$68 million of these securities were immediately sold. Excluding the investment securities of MWB, our investment securities decreased \$18 million, or less than 1.0%, from December 31, 2013 to September 30, 2014. As of September 30, 2014, the estimated duration of our investment portfolio was 3.1 years, as compared to 3.7 years as of December 31, 2013.

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On June 27, 2014, we transferred available-for-sale U.S. agency mortgage-backed securities and collateralized mortgage obligations with amortized costs and fair value 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.

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 September 30, 2014, we had investment securities with fair values aggregating \$606 million that had been in a continuous loss position more than twelve months. Gross unrealized losses on these securities of \$10 million as of September 30, 2014, were attributable to changes in interest rates. No impairment losses were recorded during the three or nine months ended September 30, 2014 and 2013.

**Company-Owned Life Insurance.** Company-owned life insurance increased \$31 million, or 25.0%, to \$153 million as of September 30, 2014, from \$122 million as of December 31, 2013, with \$13 million of the increase attributable to the MWB acquisition. Also contributing to the increase was the January 2014 purchase of \$15 million of life insurance covering certain officers and directors of FIB.

**Deferred Tax Asset.** Our net deferred tax asset decreased \$11 million, or 88.9%, to \$1.3 million as of September 30, 2014, as compared to \$12 million as of December 31, 2013. Increases in net deferred tax assets resulting from the acquisition of MWB were more than offset by decreases related to unrealized losses on available-for sale investment securities, reductions in temporary timing differences associated with our allowance for loan losses and increases in deferred tax liabilities related to tax deductible goodwill from previous acquisitions.

**Deposits.** Our deposits consist of non-interest bearing and interest bearing demand, savings, individual retirement and time deposit accounts. Total deposits increased \$826 million, or 13.5%, to \$6,959 million as of September 30, 2014, from \$6,134 million as of December 31, 2013, with approximately \$515 million of the increase attributable to the MWB acquisition. Exclusive of the MWB acquisition, total deposits increased \$311 million, or 5.1%, due to organic growth. During the nine months ended September 30, 2014, we continued to experience a shift in the mix of deposits away from higher costing time deposits to lower costing demand deposits.

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

| Deposits                    | September 30,<br>2014 | Percent<br>of Total | December 31,<br>2013 | Percent<br>of Total |   |
|-----------------------------|-----------------------|---------------------|----------------------|---------------------|---|
| (Dollars in thousands)      |                       |                     |                      |                     |   |
| Non-interest bearing demand | \$1,637,151           | 23.5                | % \$1,491,683        | 24.3                | % |
| Interest bearing:           |                       |                     |                      |                     |   |
| Demand                      | 2,242,321             | 32.2                | 1,848,806            | 30.2                |   |
| Savings                     | 1,826,018             | 26.3                | 1,602,544            | 26.1                |   |
| Time, \$100 and over        | 521,649               | 7.5                 | 492,051              | 8.0                 |   |
| Time, other (1)             | 732,360               | 10.5                | 698,666              | 11.4                |   |
| Total interest bearing      | 5,322,348             | 76.5                | 4,642,067            | 75.7                |   |
| Total deposits              | \$6,959,499           | 100.0               | % \$6,133,750        | 100.0               | % |

(1) Included in Time, other are Certificate of Deposit Account Registry Service, or CDAR, deposits of \$41 million as of September 30, 2014 and \$52 million as of December 31, 2013.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses increased \$9 million, or 18.3%, to \$56 million as of September 30, 2014, from \$48 million as of December 31, 2013, with approximately \$7 million of the increase attributable to the MWB acquisition. The remaining increase was primarily due to the accrual of potential litigation losses, which were partially offset by a decrease in incentive bonus accruals.

Subordinated Debentures Held by Subsidiary Trusts. Subordinated debentures held by subsidiary trusts increased \$20 million, or 24.8%, to \$103 million as of September 30, 2014, from \$82 million as of December 31, 2013. At the date of acquisition, Mountain West Financial Corp. sponsored two wholly-owned business trusts formed for the exclusive purpose of issuing an aggregate of \$20 million of 30-year floating rate mandatorily redeemable capital trust preferred securities, or Trust Preferred Securities, to third-party investors. Proceeds from the issuance of the Trust Preferred Securities were invested in 30-year junior

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subordinated deferrable interest debentures, or Subordinated Debentures, issued by Mountain West Financial Corp. The Subordinated Debentures mature in 2033 and 2036 but may be redeemed, subject to approval by the Federal Reserve Bank, on any quarterly redemption date set forth in the agreements. We received approval from the Federal Reserve Bank and intend to redeem the the Subordinated Debentures on their next scheduled redemption dates occurring in December 2014 at a price equal to 100% of the principal amount of the Subordinated Debentures plus accrued and unpaid interest to the date of the redemption. For additional information regarding the Subordinated Debentures acquired in the acquisition of Mountain West Financial Corp., see "Note 7 - Subordinated Debentures Held by Subsidiary Trusts" included in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report.

## Capital Resources and Liquidity Management

Stockholders' equity is influenced primarily by earnings, dividends, changes in the unrealized holding gains or losses, net of taxes, on available-for-sale investment securities and sales and redemptions of common stock. Stockholders' equity increased \$84 million, or 10.5%, to \$886 million as of September 30, 2014, from \$802 million as of December 31, 2013, primarily due to the retention of earnings and the issuance of 1,378,230 shares of Class A common stock with an aggregate value of \$36 million as partial consideration for the acquisition of Mountain West Financial Corp.

During the nine months ended September 30, 2014, we paid aggregate cash dividends of \$21.4 million, or \$0.48 per share, to common stockholders, as compared to aggregate cash dividends of \$11.8 million, or \$0.27 per share, paid during the nine months ended September 30, 2013. During fourth quarter 2012, we declared and paid an accelerated aggregate quarterly cash dividend of \$5.6 million, or \$0.13 per share, to common shareholders in lieu of the quarterly dividend which would have been declared and paid in January 2013.

During the nine months ended September 30, 2014, we repurchased and retired 362,121 of our shares of Class A common stock in a combination of privately negotiated and open market transactions at an aggregate purchase price of \$9.1 million. The repurchases were made pursuant to a stock repurchase program approved by our Board of Directors. For additional information regarding the repurchase, see "Note 8 – Capital Stock" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report.

Pursuant to the Federal Deposit Insurance Corporation Improvement Act, the Federal Reserve and FDIC have adopted regulations setting forth a five-tier system for measuring the capital adequacy of the financial institutions they supervise. As of September 30, 2014 and December 31, 2013, FIB and MWB had capital levels that, in all cases, exceeded the well-capitalized guidelines. As of September 30, 2014, we had consolidated leverage, tier 1 and total risk-based capital ratios of 10.42%, 14.71% and 16.34%, respectively, as compared to 10.08%, 14.93% and 16.75%, respectively, as of December 31, 2013. For additional information regarding our capital levels, see "Note 10 – Regulatory Capital" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in 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 the unaudited "Consolidated Statements of Cash Flows," included in Part I, Item 1.

As a holding company, we are a corporation separate and apart from the Bank and, therefore, we provide for our own liquidity. Our main sources of funding include management fees and dividends declared and paid by the Bank and access to capital markets. There are statutory, regulatory and debt covenant limitations that affect the ability of our subsidiary bank to pay dividends to us. Management believes that such limitations will not impact our ability to meet our ongoing short-term cash obligations.

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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.

### Recent Accounting Pronouncements

See “Note 17 – Recent Authoritative Accounting Guidance” in the accompanying “Notes to Unaudited Consolidated Financial Statements” included in this report for details of recently issued accounting pronouncements and their expected impact on our financial statements.

Item 3.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2014, there have been no material changes in the quantitative and qualitative information about market risk provided pursuant to Item 305 of Regulation S-K as presented in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4.

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. As of September 30, 2014, an evaluation was performed, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of 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 September 30, 2014, were effective in ensuring that information required to be disclosed in our reports filed or submitted 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.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting for the quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, such control.

### Limitations on Controls and Procedures

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, 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, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or

procedures may deteriorate over time. Because of these limitations, any system of disclosure controls and procedures or internal control over financial reporting 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.

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes in legal proceedings as described in our Annual Report on Form 10-K for the year ended December 31, 2013.

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## Item 1A. Risk Factors

There have been no material changes in risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2013.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) There were no unregistered sales of equity securities during the three months ended September 30, 2014.

(b) Not applicable.

(c) 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 September 30, 2014.

| Period         | Total Number of Shares Purchased | 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 |
|----------------|----------------------------------|------------------------------|--|--|
| July 2014      | 1,354                            | \$27.35                      | —  | 1,674,582  |
| August 2014    | 36,703                           | 25.45                        | 36,703   | 1,637,879  |
| September 2014 | —                                | —                            | —  | 1,637,879  |
| Total          | 38,057                           | \$25.52                      | 36,703   | 1,637,879  |

## Item 3. Defaults upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

Not applicable or required.

## Item 6. Exhibits

| Exhibit Number | Description  |
|----------------|--|
| 2.1            | Agreement and Plan of Merger between First Interstate BancSystem, Inc. and Mountain West Financial Corp dated February 10, 2014 (incorporated herein reference to Exhibit 2.1 of the Company's Pre-Effective Amendment No. 1 to Registration Statement on Form S-4, No. 333-194050, dated April 2, 2014) |
| 3.1            | Amended and Restated Articles of Incorporation dated March 5, 2010 (incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K/A filed on March 10, 2010)   |
| 3.2            | Second Amended and Restated Bylaws dated January 27, 2011 (incorporated herein by reference to Exhibit 3.8 of the Company's Current Report on Form 8-K filed on February 3, 2011)  |
| 10.1           | Credit Agreement Re: Subordinated Term Note dated as of January 10, 2008, between First Interstate BancSystem, Inc. and First Midwest Bank (incorporated herein by reference to Exhibit 10.24 of the Company's Current Report on Form 8-K filed on January 16, 2008)                                     |

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- 10.2 Lease Agreement between Billings 401 Joint Venture and First Interstate Bank Montana dated September 20, 1985 and addendum thereto (incorporated herein by reference to Exhibit 10.4 of the Company's Post-Effective Amendment No. 3 to Registration Statement on Form S-1, No. 033-84540, filed on September 29, 1994)
- 10.3† First Interstate BancSystem's Deferred Compensation Plan dated December 1, 2006 (incorporated herein by reference to Exhibit 10.9 of the Company's Pre-Effective Amendment No. 3 to Registration Statement on Form S-1, No. 333-164380, filed on March 23, 2010)
- 10.4† First Amendment to the First Interstate BancSystem's Deferred Compensation Plan dated October 24, 2008 (incorporated herein by reference to Exhibit 10.10 of the Company's Pre-Effective Amendment No. 3 to Registration Statement on Form S-1, No. 333-164380, filed on March 23, 2010)

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| Exhibit Number | Description   |
|----------------|---|
| 10.5†          | 2001 Stock Option Plan, as amended (incorporated herein by reference to Exhibit 4.12 of the Company's Registration Statement on Form S-8, No. 333-106495, filed on June 25, 2003)   |
| 10.6†          | Second Amendment to 2001 Stock Option Plan (incorporated herein by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010)   |
| 10.7†          | First Interstate BancSystem, Inc. 2006 Equity Compensation Plan, amended and restated as of November 21, 2013 (incorporated herein by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-8, No. 333-193543, filed January 24, 2014 )                            |
| 10.8†          | Form of First Interstate BancSystem, Inc. 2006 Equity Compensation Plan Restricted Stock Agreement (Performance-ROA) for Certain Executive Officers (incorporated herein by reference to Exhibit 10.8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013) |
| 10.9†          | Form of First Interstate BancSystem, Inc. 2006 Equity Compensation Plan Restricted Stock Agreement (Performance-ROE) for Certain Executive Officers (incorporated herein by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013) |
| 10.10†         | Form of First Interstate BancSystem, Inc. 2006 Equity Compensation Plan Restricted Stock Agreement (Performance) for Certain Executive Officers (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on February 13, 2013)               |
| 10.11          | Trademark License Agreements between Wells Fargo & Company and First Interstate BancSystem, Inc. (incorporated herein by reference to Exhibit 10.11 of the Registration Statement on Form S-1, filed on April 22, 1997)   |
| 31.1*          | Certification of Quarterly Report on Form 10-Q pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer   |
| 31.2*          | Certification of Quarterly Report on Form 10-Q pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer   |
| 32*            | Certification of Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101**          | Interactive data file   |

† Management contract or compensatory arrangement.

\* Filed herewith.

\*\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST INTERSTATE BANCSYSTEM, INC.

Date: November 7, 2014

/S/ ED GARDING  
Ed Garding  
President and Chief Executive Officer

Date: November 7, 2014

/S/ KEVIN P. RILEY  
Kevin P. Riley  
Executive Vice President and  
Chief Financial Officer