Section 1: 10-Q (10-Q)

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, 2019

OR

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

For the transition period from ________ to ________

COMMISSION FILE NUMBER 001-34653

FIRST INTERSTATE BANCSYSTEM, INC.

(Exact name of registrant as specified in its charter)

Montana	**81-0331430**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
401 North 31st Street	
Billings, MT	**59116-0918**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, no par value	FIBK	NASDAQ

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

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

September 30, 2019 – Class A common stock	43,034,082
September 30, 2019 – Class B common stock	22,195,679

Quarterly Report on Form 10-Q

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
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September 30, 2019

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

	September 30, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 298.4	$ 244.1
Interest bearing deposits in banks	971.1	577.8
Federal funds sold	0.1	0.1
Total cash and cash equivalents	1,269.6	822.0
Investment securities:		
Available-for-sale	2,732.2	2,270.7
Held-to-maturity (estimated fair values of $97.2 and $400.7 at September 30, 2019 and December 31, 2018, respectively)	94.9	406.8
Total investment securities	2,827.1	2,677.5
Loans held for investment	8,992.6	8,470.4
Mortgage loans held for sale	108.9	33.3
Total loans	9,101.5	8,503.7
Less allowance for loan losses	75.0	73.0
Net loans	9,026.5	8,430.7
Goodwill	622.6	546.7
Company-owned life insurance	292.8	275.1
Premises and equipment, net of accumulated depreciation	302.8	245.2
Core deposit intangibles, net of accumulated amortization	65.0	56.9
Accrued interest receivable	51.1	44.9
Mortgage servicing rights, net of accumulated amortization and impairment reserve	29.8	27.7
Other real estate owned (“OREO”)	17.8	14.4
Other assets	196.5	159.1
Total assets	$ 14,701.6	$ 13,300.2
Liabilities and Stockholders’ Equity		
Deposits:		
Non-interest bearing	$ 3,639.7	$ 3,158.3
Interest bearing	8,159.9	7,522.4
Total deposits	11,799.6	10,680.7
Securities sold under repurchase agreements	636.9	712.4
Accounts payable and accrued expenses	145.8	94.1
Accrued interest payable	12.3	7.8
Deferred tax liability, net	23.6	8.6
Long-term debt	13.9	15.8
Subordinated debentures held by subsidiary trusts	86.9	86.9
Total liabilities	12,719.0	11,606.3
Stockholders’ equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued and outstanding as of September 30, 2019 or December 31, 2018	—	—
Common stock	1,047.8	866.7
Retained earnings	921.4	851.8
Accumulated other comprehensive gain (loss), net	13.4	(24.6)
Total stockholders’ equity	1,982.6	1,693.9
Total liabilities and stockholders’ equity	$ 14,701.6	$ 13,300.2

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest income:				
Interest and fees on loans	$ 120.0	$ 103.9	$ 352.3	$ 292.1
Interest and dividends on investment securities:				
Taxable	15.1	13.9	45.9	41.0
Exempt from federal taxes	0.5	0.6	1.5	1.8
Interest on deposits in banks	5.7	2.8	14.3	6.9
Total interest income	141.3	121.2	414.0	341.8
Interest expense:				
Interest on deposits	13.4	8.9	39.6	22.3
Interest on securities sold under repurchase agreements	1.0	0.7	3.1	1.8
Interest on other borrowed funds	—	0.1	—	0.2
Interest on other debt	0.3	0.4	1.0	0.9
Interest on subordinated debentures held by subsidiary trusts	1.1	1.1	3.5	3.0
Total interest expense	15.8	11.2	47.2	28.2
Net interest income	125.5	110.0	366.8	313.6
Provision for loan losses	2.6	2.0	10.1	7.0
Net interest income after provision for loan losses	122.9	108.0	356.7	306.6
Non-interest income:				
Payment services revenues	10.8	10.1	30.7	33.5
Mortgage banking revenues	10.5	6.7	24.3	19.3
Wealth management revenues	5.9	5.8	17.8	17.5
Service charges on deposit accounts	5.3	5.7	15.7	16.6
Other service charges, commissions and fees	4.2	3.4	12.7	11.1
Investment securities gains (losses), net	0.1	—	0.1	—
Other income	4.0	4.5	13.4	11.0
Total non-interest income	40.8	36.2	114.7	109.0
Non-interest expense:				
Salaries and wages	40.6	36.8	117.1	105.7
Employee benefits	11.9	11.9	40.3	35.5
Outsourced technology services	7.9	6.8	23.9	20.9
Occupancy, net	7.1	6.5	21.2	18.8
Furniture and equipment	3.3	3.5	10.2	9.5
OREO expense, net of income	(0.8)	0.2	(0.5)	0.3
Professional fees	3.5	1.9	7.7	5.2
FDIC insurance premiums	0.4	1.4	3.5	4.3
Mortgage servicing rights amortization	1.2	0.8	3.1	2.3
Core deposit intangibles amortization	3.0	2.0	8.3	5.5
Other expenses	17.4	15.8	50.8	48.1
Acquisition related expenses	3.8	3.1	19.6	5.4
Total non-interest expense	99.3	90.7	305.2	261.5
Income before income tax expense	64.4	53.5	166.2	154.1
Income tax expense	15.3	12.1	37.6	34.3
Net income	$ 49.1	$ 41.4	$ 128.6	$ 119.8
Earnings per common share (Basic)	$ 0.76	$ 0.71	$ 2.03	$ 2.10
Earnings per common share (Diluted)	$ 0.76	$ 0.71	$ 2.03	$ 2.09

Weighted average common shares outstanding (Basic)	64,832,324	58,254,575	63,232,575	56,951,029
Weighted average common shares outstanding (Diluted)	65,043,486	58,640,475	63,471,283	57,330,027

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 49.1	$ 41.4	$ 128.6	$ 119.8
Other comprehensive income (loss), before tax:				
Investment securities available-for sale:				
Change in net unrealized gains (losses) during period	4.2	(6.3)	58.0	(33.9)
Reclassification adjustment for net (gains) losses included in income	(0.1)	—	(0.1)	—
Reclassification adjustment for securities transferred from held-to-maturity to available-for-sale	—	—	(6.0)	—
Change in unamortized loss on available-for-sale securities transferred into held-to-maturity	—	0.5	—	1.5
Change in net actuarial gain	(0.2)	(0.2)	(0.5)	(0.5)
Other comprehensive income (loss), before tax	3.9	(6.0)	51.4	(32.9)
Deferred tax (expense) benefit related to other comprehensive income	(1.0)	1.6	(13.4)	8.6
Other comprehensive income (loss), net of tax	2.9	(4.4)	38.0	(24.3)
Comprehensive income, net of tax	$ 52.0	$ 37.0	$ 166.6	$ 95.5

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,			
	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at June 30, 2019	$ 1,045.6	$ 892.5	$ 10.5	$ 1,948.6
Net income	—	49.1	—	49.1
Other comprehensive income, net of tax expense	—	—	2.9	2.9
Common stock transactions:				
4,200 common shares purchased and retired	—	—	—	—
662 non-vested common shares issued	—	—	—	—
14,502 non-vested common shares forfeited or canceled	—	—	—	—
18,983 stock options exercised, net of 5,425 shares tendered in payment of option price and income tax withholding amounts	0.2	—	—	0.2
Stock-based compensation expense	2.0	—	—	2.0
Common cash dividends declared ($0.31 per share)	—	(20.2)	—	(20.2)
Balance at September 30, 2019	$ 1,047.8	$ 921.4	$ 13.4	$ 1,982.6
Balance at June 30, 2018	$ 690.7	$ 802.6	$ (35.0)	$ 1,458.3
Net income	—	41.4	—	41.4
Other comprehensive loss, net of tax expense	—	—	(4.4)	(4.4)
Common stock transactions:				
1,364 common shares purchased and retired	(0.1)	—	—	(0.1)
3,837,540 common shares issued	173.3	—	—	173.3
5,048 non-vested common shares issued	—	—	—	—
12,975 non-vested common shares forfeited or canceled	—	—	—	—
20,836 stock options exercised, net of 3,465 shares tendered in payment of option price and income tax withholding amounts	0.3	—	—	0.3
Stock-based compensation expense	1.3	—	—	1.3
Common cash dividends declared ($0.28 per share)	—	(15.7)	—	(15.7)
Balance at September 30, 2018	$ 865.5	$ 828.3	$ (39.4)	$ 1,654.4

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

	Nine Months Ended September 30,			
	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2018	$ 866.7	$ 851.8	$ (24.6)	$ 1,693.9
Net income	—	128.6	—	128.6
Other comprehensive income, net of tax expense	—	—	38.0	38.0
Common stock transactions:				
43,560 common shares purchased and retired	(2.5)	—	—	(2.5)
4,356,498 common shares issued	176.1	—	—	176.1
211,826 non-vested common shares issued	—	—	—	—
35,919 non-vested common shares forfeited or canceled	—	—	—	—
117,669 stock options exercised, net of 40,533 shares tendered in payment of option price and income tax withholding amounts	0.9	—	—	0.9
Stock-based compensation expense	6.6	—	—	6.6
Common cash dividends declared ($0.93 per share)	—	(59.0)	—	(59.0)
Balance at September 30, 2019	$ 1,047.8	$ 921.4	$ 13.4	$ 1,982.6
Balance at December 31, 2017	$ 687.0	$ 752.6	$ (12.0)	$ 1,427.6
Net income	—	119.8	—	119.8
Reclassification of the income tax effects of the Tax Cut and Jobs Act from AOCI	—	3.1	(3.1)	—
Other comprehensive loss, net of tax expense	—	—	(24.3)	(24.3)
Common stock transactions:				
23,960 common shares purchased and retired	(1.0)	—	—	(1.0)
3,848,929 common shares issued	173.3	—	—	173.3
210,039 non-vested common shares issued	—	—	—	—
40,122 non-vested common shares forfeited or canceled	—	—	—	—
148,834 stock options exercised, net of 28,194 shares tendered in payment of option price and income tax withholding amounts	1.9	—	—	1.9
Stock-based compensation expense	4.3	—	—	4.3
Common cash dividends declared ($0.84 per share)	—	(47.2)	—	(47.2)
Balance at September 30, 2018	$ 865.5	$ 828.3	$ (39.4)	$ 1,654.4

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 128.6	$ 119.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	10.1	7.0
Depreciation and amortization	29.0	19.9
Net premium amortization on investment securities	6.4	7.9
Net gain on investment securities transactions	(0.1)	—
Realized and unrealized net gains on mortgage banking activities	(21.1)	(4.2)
Net loss (gain) on sale of OREO	(1.7)	(0.4)
Write-downs of OREO and other assets pending disposal	0.7	0.1
Deferred income tax expense	0.5	13.2
Net increase in cash surrender value of company-owned life insurance	(4.2)	(3.6)
Stock-based compensation expense	6.6	4.3
Originations of mortgage loans held for sale	(770.1)	(738.3)
Proceeds from sales of mortgage loans held for sale	710.9	747.1
Changes in operating assets and liabilities, net of effects of acquisition:		
Increase in interest receivable	(4.0)	(6.4)
Increase in other assets	(31.0)	(0.7)
(Decrease) increase in accrued interest payable	(13.6)	0.9
Decrease in accounts payable and accrued expenses	9.7	5.3
Net cash provided by operating activities	56.7	171.9
Cash flows from investing activities:		
Purchases of investment securities:		
Held-to-maturity	—	(0.3)
Available-for-sale	(740.3)	(320.6)
Proceeds from maturities and pay-downs of investment securities:		
Held-to-maturity	33.2	66.9
Available-for-sale	681.9	333.3
Purchases of company-owned life insurance	1.6	—
Extensions of credit to customers, net of repayments	(136.0)	(225.5)
Recoveries of loans charged-off	8.2	9.6
Proceeds from sale of OREO	14.0	4.3
Proceeds from the sale of Health Savings Accounts	0.3	—
Acquisition of bank and bank holding company, net of cash and cash equivalents received	298.4	28.2
Capital expenditures, net of sales	(10.2)	(0.5)
Net cash provided by (used in) investing activities	$ 151.1	$ (104.6)

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from financing activities:		
Net increase in deposits	$ 412.3	$ 214.4
Net decrease in securities sold under repurchase agreements	(105.9)	(7.1)
Net decrease in other borrowed funds	(4.1)	(24.5)
Repayments of long-term debt	(2.0)	(0.4)
Advances on long-term debt	0.1	2.7
Proceeds from issuance of common stock	0.9	1.9
Purchase and retirement of common stock	(2.5)	(1.0)
Dividends paid to common stockholders	(59.0)	(47.2)
Net cash provided by financing activities	239.8	138.8
Net increase in cash and cash equivalents	447.6	206.1
Cash and cash equivalents at beginning of period	822.0	758.9
Cash and cash equivalents at end of period	$ 1,269.6	$ 965.0
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ 34.8	$ 15.8
Cash paid during the period for interest expense	42.7	27.1
Supplemental disclosures of non-cash investing and financing activities:		
Amortization of unrealized gains and losses on transfers of securities	$ —	$ 1.4
Right-of-use assets obtained in exchange for operating lease liabilities	39.6	—
Transfer of loans to other real estate owned	14.0	10.7
Capitalization of internally originated mortgage servicing rights	2.8	4.5
Supplemental schedule of noncash investing activities from acquisitions:		
Investment securities available for sale	$ 78.7	$ 3.1
Loans held for sale	0.5	—
Loans	416.6	713.1
Premises and equipment	23.6	14.0
Goodwill	76.3	100.8
Core deposit intangible	16.6	15.7
Company-owned life insurance	15.2	9.5
Interest receivable	2.2	3.6
Other real estate owned	2.4	0.6
Other assets	6.5	6.5
Total noncash assets acquired	638.6	866.9
Liabilities assumed:		
Deposits	$ 706.7	$ 696.3
Securities sold under repurchase agreements	30.4	—
Accounts payable and accrued expenses	19.4	7.7
Long-term debt	—	7.0
Other borrowed funds	4.1	6.0
Trust preferred securities	—	4.4
Deferred tax liability	(0.4)	0.4
Total liabilities assumed	760.2	721.8

See accompanying notes to unaudited consolidated financial statements.

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements of First Interstate BancSystem, Inc., First Interstate Bank ("FIB"), and its other subsidiaries (together, 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, 2019 and December 31, 2018, the results of operations and changes in stockholders' equity for each of the three and nine month periods ended September 30, 2019 and 2018, and cash flows for each of the nine month periods ended September 30, 2019 and 2018, in conformity with U.S. generally accepted accounting principles ("GAAP"). The balance sheet information at December 31, 2018 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, 2019 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, 2018. Operating results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

Leases

We have leased branches and office space and have entered into various other agreements in conducting our business. At inception, we determine whether an agreement represents a lease and at commencement we evaluate each lease agreement to determine whether the lease is an operating or financing lease. Some of our lease agreements have contained renewal options, tenant improvement allowances, rent holidays and rent escalation clauses. As discussed in "Note 16 – Recent Authoritative Accounting Guidance" included in this report, we adopted ASU 2016-02, as of January 1, 2019.

Pursuant to ASU 2016-02, all of our long-term operating leases outstanding on December 31, 2018 continued to be classified as operating leases. Our capital lease outstanding at December 31, 2018 is classified as a financing lease. With the adoption of ASU 2016-02, we recorded on our balance sheet an operating lease right-of-use asset, within the Premises and Equipment line item, and an operating lease liability, within the Other Liabilities line item. Right-of-use lease assets represent our right to use the underlying asset for the lease term and the lease obligation represents our commitment to make the lease payments arising from the lease. Right-of-use lease assets and obligations are recognized at the commencement date based on the present value of remaining lease payments over the lease term. As the Company's leases do not provide an implicit rate, we used an estimated incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The right-of-use lease asset includes any lease payments made prior to commencement and excludes any lease incentives. The lease term may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. During the third quarter of 2019, a reassessment of the lease terms within the lease portfolio was performed, resulting in a $15.0 million decrease to the right-of-use leased assets and right-of use lease liabilities which had no corresponding impact to the results of operations. The change is due to reconsideration of the reasonable certainty of extensions, terminations, and the right to exercise options in those leases. Operating lease expense is recognized on a straight-line basis over the lease term, subject to any changes in the lease or expectations regarding the terms. Variable lease costs such as property taxes are expensed as incurred. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Prior to our adoption of ASU 2016-02, when our lease agreements contained renewal options, tenant improvement allowances, rent holidays and rent escalation clauses, we recorded a deferred rent asset or liability equal to the difference between the rent expense and the future minimum lease payments due. The lease expense related to operating leases was recognized on a straight-line basis in the statements of operations over the term of each lease. In cases where the lessor granted us leasehold improvement allowances that reduced our lease expense, we capitalized the improvements as incurred and recognized deferred rent, which was amortized over the shorter of the lease term or the expected useful life of the improvements.

(2) Acquisitions

Community 1st Bank. On October 11, 2018, the Company entered into a definitive agreement to acquire all of the outstanding stock of Community 1st Bank ("CMYF"), a community bank headquartered in Post Falls, Idaho with three banking offices in North Idaho. The acquisition was completed on April 8, 2019, and conversion of the data processing systems occurred on June 7, 2019.

Consideration for the acquisition was $18.8 million, consisting of the issuance of 0.463 million shares of the Company's Class A common stock valued at $40.64 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock market on the acquisition date. Holders of each share of CMYF common stock received 0.3784 shares of First Interstate Class A common stock for each share of CMYF common stock. Previously unvested CMYF restricted stock awards outstanding immediately prior to the close of the transaction vested and were considered issued and outstanding at acquisition close and included in consideration. All CMYF stock options outstanding, vested and were settled by CMYF prior to the close of the transaction.

The assets and liabilities of CMYF were provisionally recorded in the Company's consolidated financial statements at their estimated fair values as of the acquisition date and will be finalized in the coming months. The excess value of the consideration paid over the fair value of assets acquired and liabilities assumed is recorded as provisional goodwill. The preliminary purchase price allocation resulted in provisional goodwill of $2.2 million, which is not deductible for income tax purposes. Goodwill resulting from the acquisition was allocated to the Company's one operating segment, community banking, and consists largely of the synergies and economies of scale expected from combining the operations of CMYF and the Company.

The Company provisionally recorded net assets acquired of approximately $16.6 million consisting of approximately $129.1 million in assets, inclusive of $78.8 million of loans, of which $0.7 million were classified as credit impaired, and assumed approximately $112.5 million of liabilities, inclusive of $110.1 million of deposits. Adjustments to the fair value marks for premises and equipment and accounts payable and accrued expenses were made since the prior quarter, none of which were material. The adjustments had no impact on 2019 earnings and resulted in a net decrease to goodwill of $0.3 million from the second quarter reported balances. Due to the recent closing of the transaction, all amounts reported are provisional pending the review of valuations obtained from third parties.

Core deposit intangible assets of $3.0 million are being amortized using an accelerated method over the estimated useful lives of the related deposits of 10 years.

Unaudited pro forma consolidated revenues and net income as if the CMYF acquisition had occurred as of January 1, 2019, are not presented because the effect of this acquisition was not considered significant.

The accompanying consolidated statements of income for the three and nine months ended September 30, 2019, include the results of operations of the acquired entity from the April 8, 2019 acquisition date. Although legally merged with FIB, the acquired entity continued to do business as CMYF until June 7, 2019, at which point CMYF's operations were integrated with the Company's operations.

Idaho Independent Bank. On October 11, 2018, the Company also entered into a definitive agreement to acquire all of the outstanding stock of Idaho Independent Bank ("IIBK"), a community bank headquartered in Coeur d' Alene, Idaho with 11 banking offices across Idaho. The acquisition was completed on April 8, 2019, and the Company converted data processing systems on June 7, 2019.

Consideration for the acquisition was $157.3 million, consisting of the issuance of 3.871 million shares of the Company's Class A common stock valued at $40.64 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock market on the acquisition date. Holders of each share of IIBK common stock received 0.50 shares of First Interstate Class A common stock for each share of IIBK common stock. Previously unvested IIBK restricted stock awards outstanding immediately prior to the close of the transaction vested and were considered issued and outstanding at acquisition close and included in consideration. All IIBK stock options outstanding, vested and were settled by IIBK prior to the close of the transaction.

The assets and liabilities of IIBK were provisionally recorded in the Company's consolidated financial statements at their estimated fair values as of the acquisition date and will be finalized in the coming months. The excess value of the consideration paid over the fair value of assets acquired and liabilities assumed is recorded as provisional goodwill. The preliminary purchase price allocation resulted in provisional goodwill of $74.1 million, which is not deductible for income tax purposes. Goodwill resulting from the acquisition was allocated to the Company's one operating segment, community banking, and consists largely of the synergies and economies of scale expected from combining the operations of IIBK and the Company.

The following table summarizes the consideration paid, fair values of the IIBK assets acquired and liabilities assumed, and the resulting goodwill. Due to the recent closing of the transaction, all amounts reported are provisional pending the review of valuations obtained from third parties.

As of April 8, 2019	As Recorded by IIBK	Fair Value Adjustments		As Recorded by the Company
Assets acquired:				
Cash and cash equivalents	$ 270.7	$ —		$ 270.7
Investment securities	62.7	0.5	(1)	63.2
Loans held for investment	347.6	(9.8)	(2)	337.8
Mortgage loans held for sale	0.5	—		0.5
Allowance for loan loss	(6.3)	6.3	(3)	—
Premises and equipment	16.5	7.0	(4)	23.5
Other real estate owned ("OREO")	0.4	2.0	(5)	2.4
Company owned life insurance	15.2	—		15.2
Core deposit intangible assets	—	13.6	(6)	13.6
Deferred tax assets, net	3.2	(3.2)	(7)	—
Other assets	8.6	(0.8)	(8)	7.8
Total assets acquired	719.1	15.6		734.7
Liabilities assumed:				
Deposits	596.5	0.1	(9)	596.6
Accounts payable and accrued expense	15.2	5.2	(10)	20.4
Other borrowed funds	4.0	0.1	(11)	4.1
Securities sold under repurchase agreements	30.4	—		30.4
Total liabilities assumed	646.1	5.4		651.5
Net assets acquired	$ 73.0	$ 10.2		$ 83.2
Consideration paid:				
Class A common stock				$ 157.3
Total consideration paid				$ 157.3
Goodwill				$ 74.1

Adjustments to the fair value marks for premises and equipment, deferred tax assets, accounts payable and accrued expenses were made since the prior quarter, none of which were material. The adjustments had no impact on 2019 earnings and a net decrease to goodwill of $0.6 million from the second quarter reported balances. Explanation of fair value adjustments and the removal of previously recorded fair value marks recorded by IIBK:

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

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

collateral, discounted using market-derived rates of return with consideration given to the period of time and costs associated with foreclosure and disposition of the collateral.

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

(4) Write up of the book value of premises and equipment to their estimated fair values on the date of acquisition based upon broker's opinion of value.

(5) Adjustment to the book value of other real estate owned to their estimated fair values on the date of acquisition based on appraisal value.

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

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

(8) Adjustment consists of reductions to the fair value of other items.

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

(10) Adjustment to the liability for the nonqualified retirement plan.

(11) Adjustment of the book value of debt to the estimated fair values on the date of acquisition based upon interest rates in the market.

Core deposit intangible assets of $13.6 million are being amortized using an accelerated method over the estimated useful lives of the related deposits of 10 years.

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

Information regarding IIBK loans acquired deemed credit-impaired as of the April 8, 2019 acquisition date are as follows:

Contractually required principal and interest payments	$	24.1
Contractual cash flows not expected to be collected ("non-accretable discount")		3.9
Cash flows expected to be collected		20.2
Interest component of cash flows expected to be collected ("accretable discount")		3.4
Fair value of acquired credit-impaired loans	$	16.8

Information regarding IIBK acquired loans not deemed credit-impaired at the April 8, 2019 acquisition date are as follows:

Contractually required principal and interest payments	$	398.7
Contractual cash flows not expected to be collected		15.2
Fair value at acquisition	$	321.5

Unaudited pro forma consolidated revenues and net income as if the IIBK acquisition had occurred as of January 1, 2019, are not presented because the effect of this acquisition was not considered significant.

The accompanying consolidated statements of income for the three and nine months ended September 30, 2019, include the results of operations of the acquired entity from the April 8, 2019 acquisition date. Although legally merged with FIB, the acquired entity continued to do business as IIBK until June 7, 2019, at which point IIBK's operations were integrated with the Company's operations.

Northwest Bancorporation, Inc. On April 25, 2018, the Company entered into a definitive agreement to acquire all of the outstanding stock of Northwest Bancorporation, Inc. ("Northwest"), the parent company of Inland Northwest Bank ("INB"), a Spokane, Washington based community bank with 20 banking offices across Idaho, Oregon and Washington. The acquisition was completed on August 16, 2018, and the Company merged INB with its existing bank subsidiary, First Interstate Bank, on November 9, 2018.

Consideration for the acquisition was $176.3 million, consisting of the issuance of 3.84 million shares of the Company's Class A common stock valued at $45.15 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock market on the acquisition date. The Company paid approximately $3.0 million in cash related to Northwest warrants, which were included in the consideration paid. Holders of each share of Northwest common stock received 0.516 shares of First Interstate Class A common stock for each share of Northwest common stock. Additionally, all Northwest stock purchase warrants outstanding immediately prior to the close of the transaction were canceled in exchange for the right to receive a cash payment as provided in the Agreement. Previously unvested Northwest restricted stock awards outstanding immediately prior to the close of the transaction vested and were considered issued and outstanding at acquisition close.

The assets and liabilities of Northwest were recorded in the Company's consolidated financial statements at their estimated fair values as of the acquisition date. The excess value of the consideration paid over the fair value of assets acquired and liabilities assumed is recorded as goodwill. The purchase price allocation resulted in goodwill of $100.7 million, which is not deductible for income tax purposes. Goodwill resulting from the acquisition was allocated to the Company's one operating segment, community banking, and consists largely of the synergies and economies of scale expected from combining the operations of Northwest and the Company.

The following table summarizes the consideration paid, fair values of the Northwest assets acquired and liabilities assumed, and the resulting goodwill. All amounts reported were finalized in the second quarter of 2019.

As of August 16, 2018	As Recorded by Northwest	Fair Value Adjustments		As Recorded by the Company
Assets acquired:				
Cash and cash equivalents	$ 31.2	$ —		$ 31.2
Investment securities	3.1	—		3.1
Loans held for investment	727.9	(14.8)	(1)	713.1
Allowance for loan loss	(8.0)	8.0	(2)	—
Premises and equipment	14.5	—		14.5
Other real estate owned ("OREO")	0.3	0.3		0.6
Core deposit intangible assets	2.4	13.3	(3)	15.7
Other assets	29.3	(10.0)	(4)	19.3
Total assets acquired	800.7	(3.2)		797.5
Liabilities assumed:				
Deposits	696.1	0.2	(5)	696.3
Accounts payable and accrued expense	8.1	(0.4)	(6)	7.7
Long term debt	13.0	0.1		13.1
Trust preferred securities	5.2	(0.8)	(7)	4.4
Deferred tax liability, net	(1.2)	1.6	(8)	0.4
Total liabilities assumed	721.2	0.7		721.9
Net assets acquired	$ 79.5	$ (3.9)		$ 75.6
Consideration paid:				
Cash				$ 3.0
Class A common stock				173.3
Total consideration paid				176.3
Goodwill				$ 100.7

Explanation of fair value adjustments and the removal of previously recorded fair value marks recorded by Northwest:

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

(2) Adjustment to remove the Northwest allowance for loan losses at acquisition date, as the credit risk is included in the fair value adjustment for loans receivable described in (1) above.

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

(4) Adjustment consists of reductions to the fair value of other items, including the removal of Northwest previously recorded goodwill.

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

(6) Decrease due to the write-off of off balance sheet reserves.

(7) Write down of the book value of debt to the estimated fair values on the date of acquisition based upon favorable interest rates in the market.

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

Core deposit intangible assets of $15.7 million are being amortized using an accelerated method over the estimated useful lives of the related deposits of 10 years.

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

Information regarding Northwest loans acquired deemed credit-impaired as of the August 16, 2018 acquisition date are as follows:

Contractually required principal and interest payments	$	27.5
Contractual cash flows not expected to be collected ("non-accretable discount")		4.4
Cash flows expected to be collected		23.1
Interest component of cash flows expected to be collected ("accretable discount")		3.2
Fair value of acquired credit-impaired loans	$	19.9

Information regarding Northwest acquired loans not deemed credit-impaired at the August 16, 2018 acquisition date are as follows:

Contractually required principal and interest payments	$	894.8
Contractual cash flows not expected to be collected		26.1
Fair value at acquisition	$	693.2

Unaudited pro forma consolidated revenues and net income as if the Northwest acquisition had occurred as of January 1, 2018, are not presented because the effect of this acquisition was not considered significant.

The accompanying consolidated statements of income for the three and nine months ended September 30, 2019, include the results of operations of the acquired entity from the August 16, 2018 acquisition date. The acquired entity continued to operate as INB until November 9, 2018 at which point INB's operations were integrated with the Company's operations, and INB merged with FIB.

The Company recorded $3.8 million and $19.6 million in pre-tax acquisition related expenses for the three and nine months ended September 30, 2019. These costs are incorporated in non-interest expenses in the Company's consolidated statements of income.

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Legal and Professional Fees	$ 0.1	$ 2.4	$ 0.8	$ 3.0
Employee Expenses	1.4	—	8.2	0.1
Technology Conversion and Contract Termination	1.5	0.5	8.7	2.0
Other	0.8	0.2	1.9	0.3
Total Acquisition Related Expenses	$ 3.8	$ 3.1	$ 19.6	$ 5.4

(3) Goodwill and Core Deposit Intangibles

Management analyzes its goodwill for impairment on an annual basis and between annual tests in certain circumstances, such as upon material adverse changes in legal, business, regulatory, and economic factors. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Company performed an impairment assessment as of July 1, 2019 and 2018 and concluded that there was no impairment to goodwill.

The following table presents a rollforward of goodwill from the beginning of the year to goodwill as of the dates indicated:

	September 30, 2019	December 31, 2018
Net carrying value at beginning of the period	$ 546.7	$ 444.7
Additions to provisional goodwill from acquisitions	75.9	102.0
Net carrying value at end of period	$ 622.6	$ 546.7

The following table presents Core deposit intangibles ("CDI") as of the dates indicated:

	September 30, 2019	December 31, 2018
Gross CDI, at beginning of the period	$ 89.7	$ 74.0
Established through acquisitions or provisional adjustments	16.6	15.7
Reductions due to sale of accounts	(0.3)	—
Accumulated amortization	(41.0)	(32.8)
Net CDI, end of period	$ 65.0	$ 56.9

The Company recorded $3.0 million and $2.0 million of CDI amortization expense for the three months ended September 30, 2019 and 2018, respectively, and $8.3 million and $5.5 million for the nine months ended September 30, 2019 and 2018, respectively.

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

The following table provides the estimated future CDI amortization expense:

Years Ending December 31,	
2019 remaining	$ 2.9
2020	10.9
2021	9.9
2022	9.0
2023	8.2
Thereafter	24.1
Total	$ 65.0

(4) Investment Securities

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

September 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
U.S. Treasury notes	$ 7.0	$ —	$ —	$ 7.0
State, county and municipal securities	77.4	1.0	—	78.4
Obligations of U.S. government agencies	427.2	0.3	(0.8)	426.7
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	2,046.6	21.1	(4.5)	2,063.2
Private mortgage-backed securities	54.4	0.1	(0.4)	54.1
Corporate securities	96.0	0.7	—	96.7
Other investments	6.1	—	—	6.1
Total	$ 2,714.7	$ 23.2	$ (5.7)	$ 2,732.2

September 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity:				
State, county and municipal securities	$ 59.7	$ 2.3	$ —	$ 62.0
Obligations of U.S. government agencies	19.9	—	—	19.9
U.S agency residential mortgage-backed securities & collateralized mortgage obligations	1.2	—	—	1.2
Corporate securities	14.0	—	—	14.0
Other investments	0.1	—	—	0.1
Total	$ 94.9	$ 2.3	$ —	$ 97.2

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
U.S. Treasury notes	$ 2.6	$ —	$ —	$ 2.6
Obligations of U.S. government agencies	569.3	0.1	(10.2)	559.2
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	1,566.4	2.5	(24.1)	1,544.8
Private mortgage-backed securities	72.0	—	(1.8)	70.2
Corporate securities	92.9	—	(1.0)	91.9
Other investments	2.0	—	—	2.0

Total	$	2,305.2	$	2.6	$	(37.1)	$	2,270.7

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity:				
State, county and municipal securities	$ 150.9	$ 1.8	$ (0.9)	$ 151.8
Obligations of U.S. government agencies	19.8	—	(0.3)	19.5
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	189.7	0.3	(6.5)	183.5
Corporate securities	46.3	0.1	(0.6)	45.8
Other investments	0.1	—	—	0.1
Total	$ 406.8	$ 2.2	$ (8.3)	$ 400.7

At December 31, 2018, we had $406.8 million of investment securities classified as held to maturity. As a result of the adoption of ASU 2017-12 discussed in “Note 16 – Recent Authoritative Accounting Guidance” included in this report, the Company transferred investment securities classified as held-to-maturity to investment securities available-for-sale. At the time of transfer, the amortized cost and fair value of these securities totaled $281.1 million and $275.0 million, respectively. In addition, the unrealized loss of $6.0 million was recorded in the consolidated statement of comprehensive income.

There were no material gross realized gains or losses from the disposition of available-for-sale investment securities for the three and nine month periods ended September 30, 2019 and 2018.

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, 2019 and December 31, 2018. There were no held-to-maturity investment securities in a material gross unrealized loss position as of September 30, 2019:

	Less than 12 Months		12 Months or More		Total	
September 30, 2019	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale:						
Obligations of U.S. government agencies	$ 136.1	$ (0.5)	$ 85.7	$ (0.3)	$ 221.8	$ (0.8)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	452.7	(3.3)	187.0	(1.2)	639.7	(4.5)
Private mortgage-backed securities	—	—	35.4	(0.4)	35.4	(0.4)
Total	$ 588.8	$ (3.8)	$ 308.1	$ (1.9)	$ 896.9	$ (5.7)

	Less than 12 Months		12 Months or More		Total	
December 31, 2018	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale:						
Obligations of U.S. government agencies	$ 363.1	$ (7.9)	$ 154.5	$ (2.3)	$ 517.6	$ (10.2)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	735.2	(14.5)	503.7	(9.6)	1,238.9	(24.1)
Private mortgage-backed securities	—	—	69.4	(1.8)	69.4	(1.8)
Corporate securities	24.9	(0.2)	51.4	(0.8)	76.3	(1.0)
Total	$ 1,123.2	$ (22.6)	$ 779.0	$ (14.5)	$ 1,902.2	$ (37.1)

	Less than 12 Months		12 Months or More		Total	
December 31, 2018	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity:						
State, county and municipal securities	$ 25.9	$ (0.3)	$ 57.1	$ (0.6)	$ 83.0	$ (0.9)
Obligations of U.S. government agencies	19.5	(0.3)	—	—	19.5	(0.3)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	45.0	(2.2)	120.2	(4.3)	165.2	(6.5)
Corporate securities	—	—	39.6	(0.6)	39.6	(0.6)
Total	$ 90.4	$ (2.8)	$ 216.9	$ (5.5)	$ 307.3	$ (8.3)

The investment portfolio is evaluated quarterly for other-than-temporary declines in the market value of each individual investment security. The Company had 334 and 760 individual investment securities that were in an unrealized loss position as of September 30, 2019 and December 31, 2018, respectively, related primarily to fluctuations in the current interest rates. As of September 30, 2019, the Company had the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery. Furthermore, the Company does not have the intent to sell any of the available-for-sale securities in the above table and it is more likely than not that the Company will not have to sell any securities before a recovery in cost. No impairment losses were recorded during the three and nine month periods ended September 30, 2019 or 2018.

Maturities of investment securities at September 30, 2019 are shown below. Maturities of mortgage-backed securities have been adjusted to reflect shorter maturities based upon estimated prepayments of principal. All other investment securities maturities are shown at contractual maturity dates.

	Available-for-Sale		Held-to-Maturity	
September 30, 2019	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$ 621.4	$ 624.9	$ 38.3	$ 38.3
After one year but within five years	1,454.9	1,464.0	31.4	31.8
After five years but within ten years	236.8	238.6	21.9	23.7
After ten years	401.6	404.7	3.3	3.4
Total	$ 2,714.7	$ 2,732.2	$ 94.9	$ 97.2

As of September 30, 2019, the Company had investment securities callable within one year with amortized costs and estimated fair values of $160.5 million and $160.8 million, respectively. These investment securities are primarily included in the “after one year but within five years” category in the table above. As of September 30, 2019, the Company had callable structured notes with amortized costs and estimated fair values of $1.0 million each. These callable structured notes, which are classified as available-for-sale, are included in the after one year but within five years category in the table above.

(5) Loans

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

	September 30, 2019	December 31, 2018
Real estate loans:		
Commercial	$ 3,468.2	$ 3,235.4
Construction:		
Land acquisition & development	309.6	321.6
Residential	261.8	242.8
Commercial	386.7	274.3
Total construction loans	958.1	838.7
Residential	1,556.3	1,542.0
Agricultural	226.5	217.4
Total real estate loans	6,209.1	5,833.5
Consumer:		
Indirect consumer	797.8	787.8
Other consumer	188.8	200.6
Credit card	80.3	81.8
Total consumer loans	1,066.9	1,070.2
Commercial	1,422.6	1,310.3
Agricultural	292.7	254.8
Other, including overdrafts	1.3	1.6
Loans held for investment	8,992.6	8,470.4
Mortgage loans held for sale	108.9	33.3
Total loans	$ 9,101.5	$ 8,503.7

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

As of September 30, 2019	30 - 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Loans 30 or More Days Past Due	Current Loans	Non-accrual Loans	Total Loans
Real estate							
Commercial	$ 5.0	$ 4.6	$ 0.7	$ 10.3	$ 3,444.3	$ 13.6	$ 3,468.2
Construction:							
Land acquisition & development	1.4	0.1	0.7	2.2	307.0	0.4	309.6
Residential	4.1	—	0.8	4.9	256.5	0.4	261.8
Commercial	1.5	—	—	1.5	384.7	0.5	386.7
Total construction loans	7.0	0.1	1.5	8.6	948.2	1.3	958.1
Residential	2.1	1.3	0.9	4.3	1,548.4	3.6	1,556.3
Agricultural	—	—	0.1	0.1	221.3	5.1	226.5
Total real estate loans	14.1	6.0	3.2	23.3	6,162.2	23.6	6,209.1
Consumer:							
Indirect consumer	7.1	2.0	0.6	9.7	786.0	2.1	797.8
Other consumer	1.1	0.6	0.3	2.0	186.3	0.5	188.8
Credit card	0.9	0.4	0.6	1.9	78.4	—	80.3
Total consumer loans	9.1	3.0	1.5	13.6	1,050.7	2.6	1,066.9
Commercial	4.3	2.9	2.1	9.3	1,392.3	21.0	1,422.6
Agricultural	0.6	0.1	0.2	0.9	288.9	2.9	292.7
Other, including overdrafts	—	—	—	—	1.3	—	1.3
Loans held for investment	28.1	12.0	7.0	47.1	8,895.4	50.1	8,992.6
Mortgage loans originated for sale	—	—	—	—	108.9	—	108.9
Total loans	$ 28.1	$ 12.0	$ 7.0	$ 47.1	$ 9,004.3	$ 50.1	$ 9,101.5

As of December 31, 2018	30 - 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Loans 30 or More Days Past Due	Current Loans	Non-accrual Loans	Total Loans
Real estate							
Commercial	$ 10.4	$ 1.0	$ 0.8	$ 12.2	$ 3,214.0	$ 9.2	$ 3,235.4
Construction:							
Land acquisition & development	1.6	0.1	0.2	1.9	316.0	3.7	321.6
Residential	1.0	0.4	—	1.4	240.4	1.0	242.8
Commercial	0.4	—	—	0.4	273.7	0.2	274.3
Total construction loans	3.0	0.5	0.2	3.7	830.1	4.9	838.7
Residential	8.8	1.1	0.2	10.1	1,525.3	6.6	1,542.0
Agricultural	2.2	—	—	2.2	202.6	12.6	217.4
Total real estate loans	24.4	2.6	1.2	28.2	5,772.0	33.3	5,833.5
Consumer:							
Indirect consumer	6.8	2.1	0.4	9.3	776.8	1.7	787.8
Other consumer	1.4	0.5	0.1	2.0	198.1	0.5	200.6
Credit card	0.9	0.4	0.8	2.1	79.7	—	81.8
Total consumer loans	9.1	3.0	1.3	13.4	1,054.6	2.2	1,070.2
Commercial	8.3	1.2	1.3	10.8	1,283.7	15.8	1,310.3
Agricultural	2.1	0.3	—	2.4	249.4	3.0	254.8
Other, including overdrafts	—	—	—	—	1.6	—	1.6
Loans held for investment	43.9	7.1	3.8	54.8	8,361.3	54.3	8,470.4
Mortgage loans originated for sale	—	—	—	—	33.3	—	33.3
Total loans	$ 43.9	$ 7.1	$ 3.8	$ 54.8	$ 8,394.6	$ 54.3	$ 8,503.7

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

The following table displays the outstanding unpaid balances and accrual status of loans acquired with credit impairment as of the dates indicated:

	September 30, 2019	December 31, 2018
Outstanding balance	$ 52.8	$ 43.4
Carrying value		
Loans on accrual status	39.9	30.2
Total carrying value	$ 39.9	$ 30.2

The following table summarizes changes in the accretable yield for loans acquired deemed credit impaired for the three and nine month periods ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance	$ 10.8	$ 6.5	$ 8.9	$ 7.3
Acquisitions	—	3.2	3.4	3.2
Additions	—	—	—	0.4
Accretion income	(0.8)	(0.7)	(2.5)	(2.4)
Reductions due to exit events	(0.2)	(0.1)	(1.3)	(0.6)

Reclassifications from non-accretable differences		0.2		0.6		1.5	1.6
Ending balance	$	10.0	$	9.5	$	10.0 $	9.5

Acquired loans that met the criteria for non-accrual of interest prior to acquisition were considered performing upon acquisition. If interest on non-accrual loans had been accrued, such income would have been approximately $0.6 million and $0.8 million for the three months ended September 30, 2019 and 2018, respectively, and approximately $2.0 million and $1.6 million for the nine months ended September 30, 2019 and 2018, respectively.

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

As of September 30, 2019	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	$ 28.4	$ 13.2	$ 9.7	$ 22.9	$ 0.7
Construction:					
Land acquisition & development	6.8	0.4	0.2	0.6	—
Residential	0.6	0.4	—	0.4	—
Commercial	1.0	0.5	0.1	0.6	—
Total construction loans	8.4	1.3	0.3	1.6	—
Residential	6.3	3.1	2.0	5.1	0.2
Agricultural	7.6	5.1	2.1	7.2	0.1
Total real estate loans	50.7	22.7	14.1	36.8	1.0
Commercial	30.9	12.6	12.4	25.0	2.9
Agricultural	5.8	2.8	2.5	5.3	0.2
Total	$ 87.4	$ 38.1	$ 29.0	$ 67.1	$ 4.1

As of December 31, 2018	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	$ 22.2	$ 8.6	$ 7.7	$ 16.3	$ 0.7
Construction:					
Land acquisition & development	10.0	0.4	3.5	3.9	0.2
Residential	1.1	0.6	0.4	1.0	0.1
Commercial	0.7	0.2	—	0.2	—
Total construction loans	11.8	1.2	3.9	5.1	0.3
Residential	8.8	5.7	2.0	7.7	0.3
Agricultural	12.9	12.5	0.2	12.7	—
Total real estate loans	55.7	28.0	13.8	41.8	1.3
Commercial	24.1	5.5	14.4	19.9	5.2
Agricultural	3.2	2.5	0.6	3.1	0.3
Total	$ 83.0	$ 36.0	$ 28.8	$ 64.8	$ 6.8

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

	Three Months Ended September 30,			
	2019		2018	
	Average Recorded Investment	Income Recognized	Average Recorded Investment	Income Recognized
Real estate	$ 33.9	$ —	$ 54.5	$ —
Commercial	22.1	—	20.7	—
Agricultural	6.0	—	1.9	—
Total	$ 62.0	$ —	$ 77.1	$ —

	Nine Months Ended September 30,			
	2019		2018	
	Average Recorded Investment	Income Recognized	Average Recorded Investment	Income Recognized
Real estate	$ 39.2	$ —	$ 54.1	$ 0.2
Commercial	22.5	0.1	22.0	0.1
Agricultural	4.1	—	1.6	—
Total	$ 65.8	$ 0.1	$ 77.7	$ 0.3

Interest payments received on non-accrual impaired loans are applied to principal. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. If interest on impaired loans had been accrued, interest income on impaired loans would have been approximately $0.6 million and $0.8 million for the three months ended September 30, 2019 and 2018, respectively, and approximately $2.0 million and $1.6 million for the nine months ended September 30, 2019 and 2018, 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.

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 changes, 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 may be 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, although they continue to be individually evaluated for impairment and disclosed as impaired loans.

The Company had loans renegotiated in troubled debt restructurings of $19.5 million as of September 30, 2019, of which $14.0 million were included in non-accrual loans and $5.5 million were on accrual status. The Company had loans renegotiated in troubled debt restructurings of $23.4 million as of December 31, 2018, of which $17.8 million were included in non-accrual loans and $5.6 million were on accrual status.

The Company had no troubled debt restructurings during the three months ended September 30, 2019 and $0.2 million of troubled debt restructurings that occurred during the nine months ended September 30, 2019.

		Type of Concession				
Nine Months Ended September 30, 2019	Number of Notes	Interest only period	Extension of term or amortization schedule	Interest rate adjustment	Other (1)	Principal Balance at Restructure Date
Commercial real estate	1	$ —	$ 0.2	$ —	$ —	$ 0.2
Total loans restructured during period	1	$ —	$ 0.2	$ —	$ —	$ 0.2

(1) Other includes concessions that reduce or defer payments for a specified period of time and/or concessions that 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 and nine months ended September 30, 2019 or 2018.

The Company had no material troubled debt restructurings during the previous 12 months for which there was a payment default during the three and nine months ended September 30, 2019. 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.

At September 30, 2019, 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.

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, 2019	Other Assets Especially Mentioned	Substandard	Doubtful	Total Criticized Loans
Real estate:				
Commercial	$ 90.0	$ 96.5	$ 1.5	$ 188.0
Construction:				
Land acquisition & development	5.0	5.0	0.1	10.1
Residential	0.9	1.4	0.4	2.7
Commercial	2.3	1.5	—	3.8
Total construction loans	8.2	7.9	0.5	16.6
Residential	3.3	7.0	0.3	10.6
Agricultural	15.5	25.3	—	40.8
Total real estate loans	117.0	136.7	2.3	256.0
Consumer:				
Indirect consumer	0.3	3.2	—	3.5
Direct consumer	0.4	1.0	0.1	1.5
Total consumer loans	0.7	4.2	0.1	5.0
Commercial	40.2	62.5	9.9	112.6
Agricultural	16.6	25.7	0.2	42.5
Total	$ 174.5	$ 229.1	$ 12.5	$ 416.1

As of December 31, 2018	Other Assets Especially Mentioned	Substandard	Doubtful	Total Criticized Loans
Real estate:				
Commercial	$ 102.5	$ 87.4	$ 2.9	$ 192.8
Construction:				
Land acquisition & development	5.0	7.0	3.3	15.3
Residential	2.8	2.0	0.4	5.2
Commercial	1.7	3.9	—	5.6
Total construction loans	9.5	12.9	3.7	26.1
Residential	3.0	10.8	0.7	14.5
Agricultural	9.0	24.0	0.1	33.1
Total real estate loans	124.0	135.1	7.4	266.5
Consumer:				
Indirect consumer	0.7	2.1	0.1	2.9
Direct consumer	0.3	0.8	0.1	1.2
Total consumer loans	1.0	2.9	0.2	4.1
Commercial	39.4	45.8	11.8	97.0
Agricultural	14.4	17.8	1.5	33.7
Total	$ 178.8	$ 201.6	$ 20.9	$ 401.3

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.

(6) 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, 2019	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Beginning balance	$ 27.7	$ 9.1	$ 35.7	$ 1.7	$ —	$ 74.2
Provision charged to operating expense	0.4	2.7	(0.4)	(0.1)	—	2.6
Less loans charged-off	(0.3)	(2.8)	(1.6)	—	—	(4.7)
Add back recoveries of loans previously charged-off	0.8	0.8	1.3	—	—	2.9
Ending balance	$ 28.6	$ 9.8	$ 35.0	$ 1.6	$ —	$ 75.0

Nine Months Ended September 30, 2019	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Beginning balance	$ 31.0	$ 8.7	$ 31.3	$ 2.0	$ —	$ 73.0
Provision charged to operating expense	(1.3)	7.1	4.3	—	—	10.1
Less loans charged-off	(3.3)	(9.1)	(3.5)	(0.4)	—	(16.3)
Add back recoveries of loans previously charged-off	2.2	3.1	2.9	—	—	8.2
Ending balance	$ 28.6	$ 9.8	$ 35.0	$ 1.6	$ —	$ 75.0

As of September 30, 2019	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Loans individually evaluated for impairment	$ 1.0	$ —	$ 2.9	$ 0.2	$ —	$ 4.1
Loans collectively evaluated for impairment	27.6	9.8	32.1	1.4	—	70.9
Allowance for loan losses	$ 28.6	$ 9.8	$ 35.0	$ 1.6	$ —	$ 75.0

As of September 30, 2019	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Loans held for investment:						
Individually evaluated for impairment	$ 36.8	$ —	$ 25.0	$ 5.3	$ —	$ 67.1
Collectively evaluated for impairment	6,172.3	1,066.9	1,397.6	287.4	1.3	8,925.5
Total loans held for investment	$ 6,209.1	$ 1,066.9	$ 1,422.6	$ 292.7	$ 1.3	$ 8,992.6

Three Months Ended September 30, 2018	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Beginning balance	$ 34.0	$ 7.8	$ 30.5	$ 1.8	$ —	$ 74.1
Provision charged to operating expense	(0.9)	2.4	0.5	—	—	2.0
Less loans charged-off	(0.7)	(3.0)	(1.1)	—	—	(4.8)
Add back recoveries of loans previously charged-off	0.6	1.2	0.5	—	—	2.3
Ending balance	$ 33.0	$ 8.4	$ 30.4	$ 1.8	$ —	$ 73.6

Nine Months Ended September 30, 2018	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Beginning balance	$ 31.7	$ 8.7	$ 30.5	$ 1.2	$ —	$ 72.1
Provision charged to operating expense	1.5	4.6	0.5	0.4	—	7.0
Less loans charged-off	(2.8)	(8.5)	(3.7)	—	—	(15.0)
Add back recoveries of loans previously charged-off	2.6	3.6	3.1	0.2	—	9.5
Ending balance	$ 33.0	$ 8.4	$ 30.4	$ 1.8	$ —	$ 73.6

As of December 31, 2018	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Loans individually evaluated for impairment	$ 1.3	$ —	$ 5.2	$ 0.3	$ —	$ 6.8
Loans collectively evaluated for impairment	29.7	8.7	26.1	1.7	—	66.2
Allowance for loan losses	$ 31.0	$ 8.7	$ 31.3	$ 2.0	$ —	$ 73.0

As of December 31, 2018	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Loans held for investment:						
Individually evaluated for impairment	$ 41.8	$ —	$ 19.9	$ 3.1	$ —	$ 64.8
Collectively evaluated for impairment	5,791.7	1,070.2	1,290.4	251.7	1.6	8,405.6
Total loans held for investment	$ 5,833.5	$ 1,070.2	$ 1,310.3	$ 254.8	$ 1.6	$ 8,470.4

The Company performs a quarterly assessment of the adequacy of its allowance for loan losses in accordance with GAAP. The methodology used to assess the adequacy is consistently applied to the Company's loan portfolio 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, the loss factor percentages are based on a three-year loss history for the 2018 period and on a one-year loss history for the comparable periods. The loan loss rates for 2018 and 2019 incorporate the available loss history data from Bank of the Cascades prior to the merger date to represent a consolidated institutional loss rate for both originated and acquired portfolios. 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.

An allowance for loan losses is established for loans acquired that are deemed 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, 2019 and December 31, 2018, the Company's allowance for loan losses included $0.7 million and $0.8 million, respectively, related to loans acquired credit impaired.

(7) 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,	
	2019	2018	2019	2018
Beginning balance	$ 27.5	$ 14.9	$ 14.4	$ 10.1
OREO acquired through acquisition	—	0.6	2.4	0.6
Additions	0.7	3.2	14.0	10.6
Valuation adjustments	(0.2)	(0.1)	(0.7)	(0.1)
Dispositions	(10.2)	(1.3)	(12.3)	(3.9)
Ending balance	$ 17.8	$ 17.3	$ 17.8	$ 17.3

The carrying values of foreclosed residential real estate properties included in other real estate owned were $2.7 million and $2.0 million as of September 30, 2019 and December 31, 2018, respectively. The Company had $0.6 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure as of September 30, 2019 and $0.4 million as of December 31, 2018.

(8) Derivatives and Hedging Activities

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

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

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

The notional amounts and estimated fair values of the Company's derivatives are presented in the following table. Fair value estimates are obtained from third parties and are based on pricing models.

	September 30, 2019		December 31, 2018	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivative Assets (included in other assets on the consolidated balance sheets):				
Non-hedging interest rate derivatives:				
Interest rate swap contracts	$ 494.0	$ 30.8	$ 403.3	$ 8.8
Interest rate lock commitments	122.4	2.0	51.0	1.3
Forward loan sales contracts	174.7	0.2	—	—
Total derivative assets	$ 791.1	$ 33.0	$ 454.3	$ 10.1
Derivative Liabilities (included in accounts payable and accrued expenses on the consolidated balance sheets):				
Non-hedging interest rate derivatives:				
Interest rate swap contracts	$ 494.0	$ 30.8	$ 403.3	$ 8.8
Forward loan sales contracts	—	—	64.6	0.6
Total derivative liabilities	$ 494.0	$ 30.8	$ 467.9	$ 9.4

Derivative assets and liabilities are recorded at fair value on the balance sheet and do not take into account the effects of master netting arrangements. Master netting arrangements allow the Company to settle all contracts held with a single counterparty on a net basis and to offset net contract position with related collateral where applicable.

The following table illustrates the potential effect of the Company's master netting arrangements, by type of financial instrument, on the Company's consolidated balance sheets as of September 30, 2019 and December 31, 2018:

	September 30, 2019					
	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts in the Balance Sheet	Financial Instruments	Fair Value of Financial Collateral in the Balance Sheet	Net Amount
Financial Assets						
Interest rate swap contracts	$ 30.8	$ —	$ 30.8	$ 0.1	$ 19.7	$ 11.0
Mortgage related derivatives	2.2	—	2.2	—	—	2.2
Total derivatives	33.0	—	33.0	0.1	19.7	13.2
Total assets	$ 33.0	$ —	$ 33.0	$ 0.1	$ 19.7	$ 13.2
Financial Liabilities						
Interest rate swap contracts	$ 30.8	$ —	$ 30.8	$ 0.1	$ —	$ 30.7
Mortgage related derivatives	—	—	—	—	—	—
Total derivatives	30.8	—	30.8	0.1	—	30.7
Repurchase agreements	636.9	—	636.9	—	636.9	—
Total liabilities	$ 667.7	$ —	$ 667.7	$ 0.1	$ 636.9	$ 30.7

	December 31, 2018					
	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts in the Balance Sheet	Financial Instruments	Fair Value of Financial Collateral in the Balance Sheet	Net Amount
Financial Assets						
Interest rate swap contracts	$ 8.8	$ —	$ 8.8	$ 2.7	$ 2.4	$ 3.7
Mortgage related derivatives	1.3	—	1.3	—	—	1.3
Total derivatives	10.1	—	10.1	2.7	2.4	5.0
Total assets	$ 10.1	$ —	$ 10.1	$ 2.7	$ 2.4	$ 5.0
Financial Liabilities						
Interest rate swap contracts	$ 8.8	$ —	$ 8.8	$ 2.7	$ 4.1	$ 2.0
Mortgage related derivatives	0.6	—	0.6	—	—	0.6
Total derivatives	9.4	—	9.4	2.7	4.1	2.6
Repurchase agreements	712.4	—	712.4	—	712.4	—
Total liabilities	$ 721.8	$ —	$ 721.8	$ 2.7	$ 716.5	$ 2.6

The following table presents the pre-tax gains or losses related to derivative contracts that were recorded in other non-interest income in the Company’s statements of income for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Non-hedging interest rate derivatives:				
Amount of gain recognized in other non-interest income	$ —	$ 0.1	$ —	$ 0.4
Amount of net fee income recognized in other non-interest income	0.5	—	1.8	0.9
Amount of net gains recognized in mortgage banking revenues	0.4	—	1.5	—

(9) Capital Stock

The Company had 43,034,082 shares of Class A common stock and 22,195,679 shares of Class B common stock outstanding as of September 30, 2019. The Company had 38,169,575 shares of Class A common stock and 22,453,672 shares of Class B common stock outstanding as of December 31, 2018.

On April 8, 2019, the Company issued 3,871,422 and 463,134 shares of its Class A common stock with an aggregate value of $157.3 million and $18.8 million as consideration for the acquisitions of IIBK and CMYF, respectively. In addition, during the nine months ended September 30, 2019, the Company issued 21,942 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 $0.8 million is included in stock-based compensation expense in the accompanying consolidated statements of changes in stockholders' equity.

On June 11, 2019, the company’s board of directors adopted a new stock repurchase program to replace the program that had been in place since 2015 and which had only 24,123 shares of Class A common stock remaining to be purchased thereunder. Under the new stock repurchase program, the Company may repurchase up to 2.5 million of its outstanding shares of Class A common stock. To date the Company has not repurchased any shares under the current authorization.

During the nine months ended September 30, 2019 and 2018, the Company did not repurchase any shares of its Class A common stock other than stock repurchases which were redemptions of vested restricted shares tendered in lieu of cash for payment of income tax withholding amounts by participants in the Company’s equity compensation plans.

(10) 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, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 49.1	$ 41.4	$ 128.6	$ 119.8
Weighted average common shares outstanding for basic earnings per share computation	64,832,324	58,254,575	63,232,575	56,951,029
Dilutive effects of stock-based compensation	211,162	385,900	238,708	378,998
Weighted average common shares outstanding for diluted earnings per common share computation	65,043,486	58,640,475	63,471,283	57,330,027
Basic earnings per common share	$ 0.76	$ 0.71	$ 2.03	$ 2.10
Diluted earnings per common share	$ 0.76	$ 0.71	$ 2.03	$ 2.09
Anti-dilutive unvested time restricted stock	4,808	4,376	5,569	120,553

The Company had 143,415 and 154,176 shares of unvested restricted stock as of September 30, 2019 and 2018, respectively, that were not included in the computation of diluted earnings per common share because performance conditions for vesting had not been met.

(11) Regulatory Capital

On July 2, 2013, the Board of Governors of the Federal Reserve Bank issued a final rule implementing a revised regulatory capital framework for U.S. banks in accordance with the Basel III international accord and satisfying related mandates under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The revised regulatory capital framework (the “Basel III Capital Rules”) substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions by defining the components of capital and addressing other issues affecting the numerator in banking institutions’ regulatory capital ratios, addressing risk weights and other issues affecting the denominator in banking institutions’ regulatory capital ratios and replacing the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules became effective for the Company on January 1, 2015, subject to a phase-in period for certain provisions. The capital conservation buffer required under Basel III began to phase in starting January 1, 2016 and became fully implemented on January 1, 2019.

As of September 30, 2019 and December 31, 2018, the Company exceeded all capital adequacy requirements to which it is subject. Actual capital amounts and ratios for the Company and its subsidiary Bank, as of September 30, 2019 and December 31, 2018 are presented in the following tables:

	Actual		Minimum Required for Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum to Be Well Capitalized Under Prompt Corrective Action Requirements(1)	
September 30, 2019	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital:								
Consolidated	$ 1,460.2	13.71%	$ 851.9	8.000%	$ 1,118.1	10.50%	$ 1,064.9	10.00%
FIB	1,308.6	12.33	849.0	8.000	1,114.3	10.50	1,061.3	10.00
Tier 1 risk-based capital:								
Consolidated	1,385.2	13.01	638.9	6.000	905.2	8.50	851.9	8.00
FIB	1,233.7	11.62	636.8	6.000	902.1	8.50	849.0	8.00
Common equity tier 1 risk-based capital:								
Consolidated	1,298.3	12.19	479.2	4.500	745.4	7.00	692.2	6.50
FIB	1,233.7	11.62	477.6	4.500	742.9	7.00	689.8	6.50
Leverage capital ratio:								
Consolidated	1,385.2	9.96	556.2	4.000	556.2	4.00	695.3	5.00
FIB	1,233.7	8.96	550.5	4.000	550.5	4.00	688.1	5.00

	Actual		Minimum Required for Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum to Be Well Capitalized Under Prompt Corrective Action Requirements(1)	
December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital:								
Consolidated	$ 1,285.0	12.99%	$ 791.2	8.00%	$ 976.6	9.875%	$ 989.0	10.00%
FIB	1,184.5	12.01	788.8	8.00	973.7	9.875	986.0	10.00
Tier 1 risk-based capital:								
Consolidated	1,212.0	12.26	593.4	6.00	778.8	7.875	791.2	8.00
FIB	1,111.6	11.27	591.6	6.00	776.5	7.875	788.8	8.00
Common equity tier 1 risk-based capital:								
Consolidated	1,127.8	11.40	445.0	4.50	630.5	6.375	642.8	6.50
FIB	1,111.6	11.27	443.7	4.50	628.6	6.375	640.9	6.50
Leverage capital ratio:								
Consolidated	1,212.0	9.47	511.9	4.00	511.9	4.000	639.9	5.00
FIB	1,111.6	8.97	495.9	4.00	495.9	4.000	619.8	5.00

(1) The ratios for the requirements to be deemed “well capitalized” are only applicable to FIB. However, the Company manages its capital position as if the requirements apply to the consolidated entity and has presented the ratios as if they also applied on a consolidated basis.

(12) Commitments and Contingencies

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.

As of September 30, 2019, the Company had commitments under construction contracts of $2.0 million.

Residential mortgage loans sold to investors in the secondary market are sold with varying recourse provisions. Essentially all of the loan sales agreements require the repurchase of a mortgage loan by the seller in situations such as breach of representation, warranty, or covenant; untimely document delivery; false or misleading statements; failure to obtain certain certificates or insurance; or unmarketability. Certain loan sales agreements contain repurchase requirements based on payment-related defects that are defined in terms of the number of days or months since the purchase, the sequence number of the payment, and/or the number of days of payment delinquency. Based on the specific terms stated in the agreements, the Company had $1.0 million of sold residential mortgage loans with recourse provisions still in effect as of September 30, 2019.

(13) 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, 2019, commitments to extend credit to existing and new borrowers approximated $2,835.8 million, which included $746.0 million on unused credit card lines and $1,238.4 million 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, 2019, the Company had outstanding standby letters of credit of $52.2 million. 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.

(14) Other Comprehensive Income/Loss

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

	Pre-tax		Tax Expense (Benefit)		Net of Tax	
Three Months Ended September 30,	2019	2018	2019	2018	2019	2018
Investment securities available-for sale:						
Change in net unrealized gains during period	$ 4.2	$ (6.3)	$ 1.0	$ (1.7)	$ 3.2	$ (4.6)
Reclassification adjustment for net gains included in net income	(0.1)	—	—	—	(0.1)	—
Change in unamortized loss on available-for-sale securities transferred into held-to-maturity	—	0.5	—	0.1	—	0.4
Defined benefits post-retirement benefit plan:						
Change in net actuarial (gain) loss	(0.2)	(0.2)	—	—	(0.2)	(0.2)
Total other comprehensive income (loss)	$ 3.9	$ (6.0)	$ 1.0	$ (1.6)	$ 2.9	$ (4.4)

	Pre-tax		Tax Expense (Benefit)		Net of Tax	
Nine Months Ended September 30,	2019	2018	2019	2018	2019	2018
Investment securities available-for sale:						
Change in net unrealized gains during period	$ 58.0	$ (33.9)	$ 15.0	$ (8.9)	$ 43.0	$ (25.0)
Reclassification adjustment for net gains included in net income	(0.1)	—	—	—	(0.1)	—
Reclassification adjustment for securities transferred from held-to-maturity to available-for-sale	(6.0)	—	(1.6)	—	(4.4)	—
Change in unamortized loss on available-for-sale securities transferred into held-to-maturity	—	1.5	—	0.4	—	1.1
Defined benefits post-retirement benefit plan:						
Change in net actuarial (gain) loss	(0.5)	(0.5)	—	(0.1)	(0.5)	(0.4)
Total other comprehensive income (loss)	$ 51.4	$ (32.9)	$ 13.4	$ (8.6)	$ 38.0	$ (24.3)

The components of accumulated other comprehensive loss, net of related tax effects, are as follows:

	September 30, 2019	December 31, 2018
Net unrealized gain (loss) on investment securities available-for-sale	$ 12.9	$ (25.5)
Net actuarial gain (loss) on defined benefit post-retirement benefit plans	0.5	0.9
Net accumulated other comprehensive gain (loss)	$ 13.4	$ (24.6)

(15) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities

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, and therefore are classified within Level 2 of the valuation hierarchy. The Company's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2019 and 2018.

Further details on the methods used to estimate the fair value of each class of financial instruments above are discussed below:

Investment Debt Securities Available-for-Sale. The Company obtains fair value measurements for investment securities from an independent pricing service. 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. 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. If needed, a broker may be utilized to determine the reported fair value of investment securities.

Loans Held for Sale. Fair value measurements for loans held for sale are obtained from an independent pricing service. The fair value measurements consider observable data that may include binding contracts or quotes or bids from third party investors as well as loan level pricing adjustments.

Interest Rate Swap Contracts. Fair values for derivative interest rate swap contracts are based upon the estimated amounts to settle the contracts considering current interest rates and are calculated using discounted cash flows that are observable or that can be corroborated by observable market data. The inputs used to determine fair value include the 3 month LIBOR forward curve to estimate variable rate cash inflows and the federal funds effective swap rate to estimate the discount rate. The estimated variable rate cash inflows are compared to the fixed rate outflows and such difference is discounted to a present value to estimate the fair value of the interest rate swaps. The change in the value of derivative assets attributable to basis risk, or the risk that offsetting investments in a hedging strategy will not

experience price changes in entirely opposite directions from each other, was not significant in the reported periods. The Company also obtains and compares the reasonableness of the pricing from an independent third party.

Interest Rate Lock Commitments. Fair value measurements for interest rate lock commitments are obtained from an independent pricing service. The fair value measurements consider observable data that may include prices available from secondary market investors taking into consideration various characteristics of the loan, including the loan amount, interest rate, value of the servicing, and loan to value ratio, among other things. Observable data is then adjusted to reflect changes in interest rates, the Company's estimated pull-through rate and estimated direct costs necessary to complete the commitment into a closed loan net of origination and processing fees collected from the borrower.

Forward Loan Sales Contracts. The fair value measurements for forward loan sales contracts are obtained from an independent pricing service. The fair value measurements consider observable data that includes sales of similar loans.

Deferred Compensation Plan Assets and Liabilities. The fair values of deferred compensation plan assets 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. These investments are in the same funds and purchased in the same amounts as the participants' selected investments, which represent the underlying liabilities to plan participants. Deferred compensation plan liabilities are recorded at amounts due to participants, based on the fair value of participants' selected investments.

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

		Fair Value Measurements at Reporting Date Using		
As of September 30, 2019	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment debt securities available-for-sale:				
U.S. Treasury Notes	$ 7.0	$ —	$ 7.0	$ —
State, county and municipal securities	78.4	—	78.4	—
Obligations of U.S. government agencies	426.7	—	426.7	—
U.S. agencies mortgage-backed securities & collateralized mortgage obligations	2,063.2	—	2,063.2	—
Private mortgage-backed securities	54.1	—	54.1	—
Corporate securities	96.7	—	96.7	—
Other investments	6.1	—	6.1	—
Loans held for sale	108.9	—	108.9	—
Derivative assets:				
Interest rate swap contracts	30.8	—	30.8	—
Interest rate lock commitments	2.0	—	2.0	—
Forward loan sale contracts	0.2	—	0.2	—
Derivative liabilities:				
Interest rate swap contracts	30.8	—	30.8	—
Deferred compensation plan assets	17.5	—	17.5	—
Deferred compensation plan liabilities	17.5	—	17.5	—

		Fair Value Measurements at Reporting Date Using		
As of December 31, 2018	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment debt securities available-for-sale:				
U.S. Treasury notes	$ 2.6	$ —	$ 2.6	$ —
Obligations of U.S. government agencies	559.2	—	559.2	—
U.S. agencies mortgage-backed securities & collateralized mortgage obligations	1,544.8	—	1,544.8	—
Private mortgage-backed securities	70.2	—	70.2	—
Corporate securities	91.9	—	91.9	—
Other investments	2.0	—	2.0	—
Loans held for sale	33.3	—	33.3	—
Derivative assets:				
Interest rate swap contracts	8.8	—	8.8	—
Interest rate lock commitments	1.3	—	1.3	—
Derivative liabilities				
Interest rate swap contracts	8.8	—	8.8	—
Forward loan sales contracts	0.6	—	0.6	—
Deferred compensation plan assets	12.1	—	12.1	—
Deferred compensation plan liabilities	12.1	—	12.1	—

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

		Fair Value Measurements at Reporting Date Using		
As of September 30, 2019	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 27.2	$ —	$ —	$ 27.2
Other real estate owned	2.9	—	—	2.9
Long-lived assets to be disposed of by sale	6.9	—	—	6.9

		Fair Value Measurements at Reporting Date Using		
As of December 31, 2018	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 24.1	$ —	$ —	$ 24.1
Other real estate owned	0.6	—	—	0.6
Long-lived assets to be disposed of by sale	4.9	—	—	4.9

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, 2019, certain impaired loans with a carrying value of $39.1 million were reduced by specific valuation allowance allocations of $4.1 million and partial loan charge-offs of $7.8 million resulting in a reported fair value of $27.2 million. As of December 31, 2018, certain impaired loans with a carrying value of $36.3 million were reduced by specific valuation allowance allocations of $6.8 million and partial loan charge-offs of $5.4 million resulting in a reported fair value of $24.1 million.

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. The Company had $0.7 million and no material write downs on OREO properties during the nine months ended September 30, 2019 and 2018, respectively.

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, 2019, the Company had long-lived assets to be disposed of by sale with carrying values aggregating $7.1 million, which was reduced by write-downs of $0.2 million, resulting in a fair value of $6.9 million. As of December 31, 2018, the Company had long-lived assets to be disposed of by sale with carrying values aggregating $5.4 million, reduced by write-downs of $0.5 million, resulting in a fair value of $4.9 million.

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized Level 3 inputs to determine fair values:

	Fair Value As of				
	September 30, 2019	December 31, 2018	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 27.2	$ 24.1	Appraisal	Appraisal adjustment	0% - 26% (13%)
Other real estate owned	2.9	0.6	Appraisal	Appraisal adjustment	8% - 96% (39%)
Long-lived assets to be disposed of by sale	6.9	4.9	Appraisal	Appraisal adjustment	0% - 43% (10%)

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.

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 using an exit price notion. 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 fair values of derivative liabilities are obtained from an independent pricing service, which considers observable data that may include the three-month LIBOR forward curve, the federal funds effective swap rate and cash flows, among other things. 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:

			Fair Value Measurements at Reporting Date Using		
As of September 30, 2019	Carrying Amount	Estimated Fair Value	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	$ 1,269.6	$ 1,269.6	$ 1,269.6	$ —	$ —
Investment debt securities available-for-sale	2,732.2	2,732.2	—	2,732.2	—
Investment debt securities held-to-maturity	94.9	97.2	—	97.2	—
Accrued interest receivable	51.1	51.1	—	51.1	—
Mortgage servicing rights, net	29.8	32.1	—	32.1	—
Loans held for sale	108.9	108.9	—	108.9	—
Net loans held for investment	8,917.6	8,953.4	—	8,926.2	27.2
Derivative assets	33.0	33.0	—	33.0	—
Deferred compensation plan assets	17.5	17.5	—	17.5	—
Total financial assets	$ 13,254.6	$ 13,295.0	$ 1,269.6	$ 11,998.2	$ 27.2
Financial liabilities:					
Total deposits, excluding time deposits	$ 10,264.6	$ 10,264.6	$ 10,264.6	$ —	$ —
Time deposits	1,535.0	1,530.9	—	1,530.9	—
Securities sold under repurchase agreements	636.9	636.9	—	636.9	—
Accrued interest payable	12.3	12.3	—	12.3	—
Long-term debt	13.9	11.3	—	11.3	—
Subordinated debentures held by subsidiary trusts	86.9	77.9	—	77.9	—
Derivative liabilities	30.8	30.8	—	30.8	—
Deferred compensation plan liabilities	17.5	17.5	—	17.5	—
Total financial liabilities	$ 12,597.9	$ 12,582.2	$ 10,264.6	$ 2,317.6	$ —

			Fair Value Measurements at Reporting Date Using		
As of December 31, 2018	Carrying Amount	Estimated Fair Value	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	$ 822.0	$ 822.0	$ 822.0	$ —	$ —
Investment debt securities available-for-sale	2,270.7	2,270.7	—	2,270.7	—
Investment debt securities held-to-maturity	406.8	400.7	—	400.7	—
Accrued interest receivable	44.9	44.9	—	44.9	—
Mortgage servicing rights, net	27.7	42.4	—	42.4	—
Loans held for sale	33.3	33.3	—	33.3	—
Net loans held for investment	8,397.4	8,439.7	—	8,415.6	24.1
Derivative assets	10.1	10.1	—	10.1	—
Deferred compensation plan assets	12.1	12.1	—	12.1	—
Total financial assets	$ 12,025.0	$ 12,075.9	$ 822.0	$ 11,229.8	$ 24.1
Financial liabilities:					
Total deposits, excluding time deposits	$ 9,363.7	$ 9,363.7	$ 9,363.7	$ —	$ —
Time deposits	1,317.0	1,299.0	—	1,299.0	—
Securities sold under repurchase agreements	712.4	712.4	—	712.4	—
Accrued interest payable	7.8	7.8	—	7.8	—
Long-term debt	15.8	13.0	—	13.0	—
Subordinated debentures held by subsidiary trusts	86.9	84.9	—	84.9	—
Derivative liabilities	9.4	9.4	—	9.4	—
Deferred compensation plan liabilities	12.1	12.1	—	12.1	—
Total financial liabilities	$ 11,525.1	$ 11,502.3	$ 9,363.7	$ 2,138.6	$ —

(16) Recent Authoritative Accounting Guidance

ASU 2016-02, "Leases (Topic 842)." In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." Under the new guidance, lessees will be required to recognize a lease liability and a right of use asset for all leases (with the exception of short-term leases) at the commencement date of the lease and disclose key information about leasing arrangements. Accounting by lessors is largely unchanged. In July 2018, the FASB issued ASU 2018-11 to provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, in December 2018, the FASB issued ASU 2018-20, "Leases (Topic 842) - Narrow-Scope Improvements for Lessors," which provides for certain policy elections and changes lessor accounting for sales and similar taxes and certain lessor costs. Upon adoption of ASU 2016-02, ASU 2018-11 and ASU 2018-20 on January 1, 2019, the Company recognized right-of-use assets and related lease liabilities totaling $54.6 million and $54.6 million, respectively, with an immaterial impact on its consolidated results of operations and liquidity. During the third quarter of 2019, a reassessment of the lease terms within the lease portfolio was performed, resulting in a $15.0 million adjustment to the right-of-use leased assets, to $39.6 million, and the right-of-use lease liabilities, to $39.6 million, which had no corresponding impact to the results of operations. The change is due to reconsideration of the reasonable certainty of extensions, terminations, and the right to exercise options in those leases. The Company elected to apply certain practical expedients provided under ASU 2016-02 whereby we did not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, and (iii) initial direct costs for any existing leases. The Company

elected the hindsight practical expedient to determine the lease term for existing leases. We also did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). Lease and non-lease components are accounted for separately as the amounts are readily determinable under our lease contracts.

ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in ASU 2016-13 require a financial asset or group of financial assets measured at amortized cost basis to be presented on a company's financial statements at the net amount expected to be collected based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 requires a company's income statement to reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. The amendments in ASU 2016-13 require that the allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination be measured at amortized cost basis with the initial allowance for credit losses added to the purchase price rather than being reported as a credit loss expense. ASU 2016-13 also requires that credit losses relating to available-for-sale debt securities be recorded through an allowance for credit losses. The amendments in ASU 2016-13 are effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period. A prospective transition approach is required for debt securities for which other-than-temporary impairment was recognized before the effective date. Amounts previously recognized in accumulated other comprehensive income as of the date of adoption that relate to improvement in cash flows expected to be collected will continue to be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption will be recorded in earnings when received. We are currently evaluating the potential impact of ASU 2016-13 on our financial statements, which will be effective on January 1, 2020. We have formed a cross-functional working group comprised of individuals from various functional areas including credit, risk management, finance, and information technology, among others. We are currently working through our implementation plan which includes assessment and documentation of processes, internal controls and data sources; model development and documentation; and system configuration, among other things. We are in the process of implementing a third-party vendor solution. The adoption of ASU 2016-13 could result in an increase in the allowance for loan losses as a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The adoption will also necessitate that we establish an allowance for expected credit losses for certain debt securities and other financial assets. While we are currently unable to reasonably estimate the impact of adopting ASU 2016-13, we expect that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date.

ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The amendments in ASU 2017-08 shorten the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018. As the Company amortized premiums on callable debt securities to the earliest call date, the amendments in ASU 2017-08 became effective for the Company on January 1, 2019, and did not have a significant impact on the Company's consolidated financial statements, results of operations, or liquidity.

ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. In addition, this ASU makes certain targeted improvements to simplify the application of the hedge accounting, including to derivative instruments as well as allow a one-time election to reclassify fixed-rate, prepayable debt securities from a held-to-maturity classification to an available-for-sale classification. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018. Guidance related to existing cash flow hedges and, if elected, fair value hedges is to be applied under a modified retrospective approach and guidance related to amended presentation and disclosures is to be applied under a prospective approach. Upon adoption of ASU 2017-12 on January 1, 2019, the guidance did not have an impact on the Company's derivatives and, thus, no adjustments were made related to derivatives. In conjunction with the adoption of ASU 2017-12, the Company made the transition election to reclassify $281.1 million in book value of securities, that qualified, from held-to-maturity to available-for-sale.

ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13). The amendments in this Update removes, modifies, and adds to the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. While the Company continues to assess all potential impacts of the standard, we currently expect adoption to have an immaterial impact on our consolidated financial statements disclosures.

ASU 2018-14, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans." In August 2018, the FASB issued ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General: Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans (ASU 2018-14). The amendments in this Update remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the Board's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement. The amendments in this Update are effective for fiscal years ending after December 15, 2020, for public business entities. Early adoption is permitted. While the Company continues to assess all potential impacts of the standard, we currently expect adoption to have an immaterial impact on our consolidated financial statements disclosures.

ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40). The amendments in this Update clarifies certain aspects of ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," which was issued in April 2015. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the Update. The amendments in this Update are effective for fiscal years beginning after December 15, 2019, for public business entities. Early adoption is permitted. While the Company continues to assess all potential impacts of the standard, we currently expect adoption to have an immaterial impact on our consolidated financial statements disclosures.

ASU 2018-16, "Derivatives and Hedging (Topic 815) - Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes." In October 2018, the FASB issued ASU 2018-16, Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in this Update permit use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the interest rates on direct U.S. Treasury obligations, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate. The amendments in ASU 2018-16 became effective for the Company in conjunction with the adoption of ASU 2017-12 on January 1, 2019, and did not have a significant impact on the Company's consolidated financial statements, results of operations or liquidity.

ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments" In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, that clarifies and improves areas of guidance related to the recently issued standards on credit losses (ASU 2016-13), hedging (ASU 2017-12), and recognition and measurement of financial instruments (ASU 2016-01). The amendments generally have the same effective dates as their related standards. If already adopted, the amendments of ASU 2016-01 and ASU 2016-13 are effective for fiscal years beginning after December 15, 2019 and the amendments of ASU 2017-12 are effective as of the beginning of the Company's next annual reporting period; early adoption is permitted. The Company previously adopted both ASU 2017-12 and ASU 2016-01 and does not expect the amendments of ASU 2019-04 to have a material impact on the Company's consolidated financial statements, results of operations or liquidity.

(17) Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date financial statements were filed with the SEC. On October 30, 2019, the Company declared a quarterly dividend to common shareholders of $0.31 per share, to be paid on November 19, 2019 to shareholders of record as of November 9, 2019.

No other undisclosed events requiring recognition or disclosure were identified.

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, 2018, including the audited financial statements contained therein, filed with the Securities and Exchange Commission, or SEC.

When we refer to "we," "our," "us," "First Interstate" or the "Company" in this report, we mean First Interstate BancSystem, Inc. and our consolidated subsidiaries, including our wholly-owned subsidiary, First Interstate Bank ("FIB"), unless the context indicates that we refer only to the parent company, First Interstate BancSystem, Inc. When we refer to the "Bank" or "FIB" in this report, we mean First Interstate Bank.

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 by words or phrases such as "believes," "expects," "anticipates," "plans," "trends," "objectives," "continues" or similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "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: political, legal, regulatory, and general economic or business conditions, either nationally or regionally; geopolitical uncertainties throughout the world; weather-related, and other adverse climate or other conditions that may impact our business and our customers' business; changes in the interest rate environment or interest rate changes made by the Federal Reserve; credit performance of our loan portfolio; adequacy of the allowance for loan losses and access to low-cost funding sources; the unavailability of LIBOR; impairment of goodwill; dependence on the Company's management team and ability to attract and retain qualified employees; governmental regulation and changes in regulatory, tax, and accounting rules and interpretations; stringent capital requirements; future FDIC insurance premium increases; CFPB restrictions on our ability to originate and sell mortgage loans; cyber-security risks, including items such as "denial of service," "hacking" and "identity theft"; unfavorable resolution to litigation and regulatory proceedings; liquidity risks and technological innovations; inability to grow organically or through acquisitions; impairment of collateral underlying our loans; environmental remediation and other costs associated with repossessed properties; ineffective internal operational controls; competition; meeting market demand with current and new products; reliance on external vendors; soundness of other financial institutions; failure of technology and failure to effectively implement technology-driven products and services; risks associated with introducing and implementing new lines of business, products or services; failure to execute on strategic or operational plans, including the ability to complete mergers and acquisitions or fully achieve expected costs savings or revenue growth associated with mergers and acquisitions; deposit attrition, customer loss and/or revenue loss following completed acquisitions; anti-takeover provisions; changes in dividend policy and the inability of our bank subsidiary to pay dividends; the uninsured nature of any investment in Class A or Class B common stock; decline in market price and volatility of Class A and Class B common stock; voting control of Class B common stock stockholders; controlled company status; dilution as a result of future equity issuances; 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, 2018. 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, 2018.

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 and included in the Company's periodic reports filed with the SEC under the Securities Exchange Act of 1934, as amended under the caption "Risk Factors." Interested parties are urged to read in their entirety such risk factors prior to making any investment decisions with respect to the Company. Forward-looking statements speak only as of the date they are made and we do not undertake or assume any obligation to update publicly any of these statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Executive Overview

We are a financial and bank holding company incorporated as a Montana corporation in 1971, and headquartered in Billings, Montana. Our Class A common stock is listed on the NASDAQ stock market under the symbol "FIBK." As of September 30, 2019, we had consolidated assets of $14.7 billion, deposits of $11.8 billion, loans of $9.1 billion and total stockholders' equity of $2.0 billion. We currently operate 152 banking offices, including detached drive-up facilities, in communities across Idaho, Montana, Oregon, South Dakota, Washington, and Wyoming in addition to internet and mobile banking services. Through our bank subsidiary, FIB, we deliver a comprehensive range of banking products and services to individuals, businesses, municipalities, and other entities throughout our market areas. Our customers participate in a wide variety of industries, including agriculture, construction, education, energy, governmental services, healthcare, mining, professional services, retail, technology, tourism, and wholesale trade.

Our Business

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

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

Recent Trends and Developments

During the past few years, we have increased our community banking footprint across the Rocky Mountain and Pacific Northwest regions, in large part due to our acquisition activity. We will continue to evaluate bank acquisitions and other strategic opportunities on an on-going basis.

On October 11, 2018, the Company entered into a definitive agreement to acquire all of the outstanding stock of IIBK, a community bank headquartered in Coeur d' Alene, Idaho with 11 banking offices across Idaho. The acquisition and merger was completed on April 8, 2019, and conversion of the data processing systems occurred on June 7, 2019. Consideration for the acquisition was $157.3 million, consisting of the issuance of 3.871 million shares of the Company's Class A common stock valued at $40.64 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock market on the acquisition date. Holders of each share of IIBK common stock received 0.50 shares of First Interstate Class A common stock for each share of IIBK common stock.

On October 11, 2018, the Company also entered into a definitive agreement to acquire all of the outstanding stock of CMYF, a community bank headquartered in Post Falls, Idaho with three banking offices in North Idaho. The acquisition and merger was completed on April 8, 2019, and conversion of the data processing systems occurred on June 7, 2019. Consideration for the acquisition was $18.8 million, consisting of the issuance of 0.463 million shares of the Company's Class A common stock valued at $40.64 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock market on the acquisition date. Holders of each share of CMYF common stock received 0.3784 shares of First Interstate Class A common stock for each share of CMYF common stock.

On August 16, 2018, the Company completed its acquisition of Northwest, the parent company of INB, a Spokane, Washington based community bank with 20 banking offices across Idaho, Oregon, and Washington. The Company merged INB and converted data processing systems with its existing bank subsidiary, FIB, on November 9, 2018. Consideration for the acquisition included $176.3 million, consisting of the issuance of 3.838 million shares of the Company's Class A common stock valued at $45.15 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock market on the acquisition date. The Company paid approximately $3.0 million in cash related to Northwest warrants, which were included in the consideration paid. Holders of each share of Northwest common stock received 0.516 shares of First Interstate Class A common stock for each share of Northwest common stock. Additionally, all Northwest stock purchase warrants outstanding immediately prior to the close of the transaction were canceled in exchange for the right to receive a cash payment as provided in the Agreement. Previously unvested Northwest restricted stock awards outstanding immediately prior to the close of the transaction vested and were considered issued and outstanding at acquisition close.

Primary Factors Used in Evaluating Our Business

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

Results of Operations

Principal tools we use in managing and evaluating our results of operations include tracking performance as measured by certain metrics including return on average equity, net interest income, non-interest income, non-interest expense, and net income. Net interest income is affected by a number of factors such as the level of interest rates, changes in interest rates, and changes in the volume and composition of interest earning assets and interest bearing liabilities. Changes in interest rate spread, which is the difference between interest earned on assets and interest paid on liabilities, has the most significant impact on net interest income. Other factors like volume of loans, investment securities, and other interest earning assets compared to the volume of interest bearing deposits and indebtedness also cause changes in our net interest income between periods. Non-interest bearing sources of funds, such as demand deposits and stockholders' equity, help to support earning assets.

The impact of funding, including non-interest bearing deposit sources, is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. We evaluate our net interest income by assessing the yields on our loans and other earning assets, the costs of our deposits and other funding sources, and the levels of our net interest spread and net interest margin.

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

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

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

Financial Condition

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

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

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

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

Critical Accounting Estimates and Significant Accounting Policies

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in the United States and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant accounting policies we follow are summarized in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

Allowance for Loan Losses

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

We perform a quarterly assessment of the risks inherent in our loan portfolio, as well as a detailed review of each significant loan we have assessed to have weaknesses. Based on this analysis, we record a provision for loan losses in order to maintain the allowance for loan losses at appropriate levels. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. Loans acquired in business combinations are recorded at their estimated fair values on the date of acquisition. Accordingly, no allowance for loan losses related to these loans is recorded at the date of transfer. An allowance for loan losses is recorded for credit deterioration occurring subsequent to the transfer date. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of subjective measurements, including management's assessment of the internal risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, and the impact of current local, regional, and national economic factors on the quality of the loan portfolio. Changes in these estimates and assumptions are possible and may have a material impact on our allowance, and as a result, on our consolidated financial statements or results of operations. The allowance for loan losses is maintained at an amount we believe is sufficient to provide for estimated losses inherent in our loan portfolio at each balance sheet date, and fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses. The loan loss rates for 2018 and 2019 incorporate the available loss history data from Bank of the Cascades prior to the merger date to represent a consolidated institutional loss rate for both originated and acquired portfolios. Management monitors qualitative and quantitative trends in the loan portfolio, including changes in the levels of past due, internally classified, and non-performing loans. Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2018 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 "Financial Condition - Allowance for Loan Losses."

Goodwill

The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely impairment has occurred. Goodwill impairment is determined by comparing the fair value of a reporting unit to its carrying amount. In any given year the Company may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is in excess of its carrying value. If it is not more likely than not that the fair value of the reporting unit is in excess of the carrying value, or if the Company elects to bypass the qualitative assessment, a quantitative impairment test is performed. In performing a quantitative test for impairment, the fair value of net assets is estimated based on analyses of the Company's market value, discounted cash flows and peer values. The determination of goodwill impairment is sensitive to market-based economics and other key assumptions used in determining or allocating fair value. Variability in the market and changes in assumptions or subjective measurements used to estimate fair value are reasonably possible and may have a material impact on our consolidated financial statements or results of operations. Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2018 describes our accounting policy with regard to goodwill.

Our annual goodwill impairment test is performed each year as of July 1st. Upon the most recent goodwill impairment qualitative assessment, the Company determined its goodwill was not considered impaired. 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. Credit risks are included in the determination of fair value. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest.

For loans with no significant evidence of credit deterioration since origination, the difference between the fair value and the unpaid principal balance of the loan at the acquisition date is amortized into interest income using the effective interest method over the remaining period to contractual maturity. Loans acquired with evidence of deterioration in credit quality since origination are accounted for in accordance with Accounting Standards Codification ("ASC") Topic 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality." For loans that meet the criteria stipulated in ASC Topic 310-30, the excess of all cash flows expected at acquisition over the initial fair value of the loans acquired ("accretable yield") is amortized to interest income over the expected remaining contractual lives of the underlying loans using the effective interest method. The Company continues to evaluate the reasonableness of expectations for the timing and amount of cash to be collected. Increases in expected cash flows subsequent to the initial measurement are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment. Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2018 further describes our accounting policy with regard to acquired loans.

Results of Operations

The following discussion and analysis is intended to provide greater details of the results of our operations and financial condition. The financial statements as of September 30, 2019 are inclusive of the effects of the combined results of operations of the INB acquisition, which closed in August 2018, and IIBK and CMYF acquisitions, which closed in April 2019. Due to the timing of the acquisitions, certain comparisons between periods are significantly affected by the transactions.

Net Interest Income

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

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

Average Balance Sheets, Yields and Rates

(Dollars in millions)	Three Months Ended					
	September 30, 2019			September 30, 2018		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:						
Loans [1] [2]	$ 9,053.6	$ 120.4	5.28%	$ 8,128.9	$ 104.3	5.09%
Investment securities [2]	2,662.8	15.7	2.34	2,590.7	14.6	2.24
Interest bearing deposits in banks	1,004.4	5.7	2.25	563.4	2.8	1.97
Federal funds sold	1.4	—	—	16.8	—	—
Total interest earnings assets	$ 12,722.2	$ 141.8	4.42%	$ 11,299.8	$ 121.7	4.27%
Non-earning assets	1,750.8			1,440.8		
Total assets	$ 14,473.0			$ 12,740.6		
Interest bearing liabilities:						
Demand deposits	$ 3,067.2	$ 2.2	0.28%	$ 2,915.4	$ 2.3	0.31%
Savings deposits	3,517.5	5.2	0.59	3,174.1	3.4	0.42
Time deposits	1,557.2	6.0	1.53	1,206.3	3.2	1.05
Repurchase agreements	669.5	1.0	0.59	633.6	0.7	0.44
Other borrowed funds	—	—	—	2.7	0.1	14.69
Long-term debt	15.4	0.3	7.73	19.2	0.4	8.27
Subordinated debentures held by subsidiary trusts	86.9	1.1	5.02	84.7	1.1	5.15
Total interest bearing liabilities	$ 8,913.7	$ 15.8	0.70%	$ 8,036.0	$ 11.2	0.55%
Non-interest bearing deposits	3,430.4			3,029.4		
Other non-interest bearing liabilities	159.9			103.3		
Stockholders' equity	1,969.0			1,571.9		
Total liabilities and stockholders' equity	$ 14,473.0			$ 12,740.6		
Net FTE interest income		$ 126.0			$ 110.5	
Less FTE adjustments [2]		(0.5)			(0.5)	
Net interest income from consolidated statements of income		$ 125.5			$ 110.0	
Interest rate spread			3.72%			3.72%
Net FTE interest margin [3]			3.93%			3.88%
Cost of funds, including non-interest bearing demand deposits [4]			0.51%			0.40%

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

(2) Interest income and average rates for tax exempt loans and securities are presented on a fully taxable equivalent, or FTE, basis utilizing the 21% federal income tax rate.

(3) 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.

Average Balance Sheets, Yields and Rates

(Dollars in millions)	Nine Months Ended					
	September 30, 2019			September 30, 2018		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:						
Loans [1] [2]	$ 8,846.1	$ 353.3	5.34%	$ 7,804.5	$ 293.3	5.02%
Investment securities [2]	2,665.5	47.9	2.40	2,658.8	43.3	2.18
Interest bearing deposits in banks	779.0	14.3	2.45	521.0	6.9	1.77
Federal funds sold	0.9	—	—	6.0	—	—
Total interest earnings assets	$ 12,291.5	$ 415.5	4.52%	$ 10,990.3	$ 343.5	4.18%
Non-earning assets	1,683.2			1,362.0		
Total assets	13,974.7			$ 12,352.3		
Interest bearing liabilities:						
Demand deposits	$ 3,018.3	$ 7.3	0.32%	$ 2,842.0	$ 5.7	0.27%
Savings deposits	3,416.6	15.9	0.62	3,132.6	8.5	0.36
Time deposits	1,474.2	16.4	1.49	1,161.4	8.1	0.93
Repurchase agreements	680.1	3.1	0.61	641.4	1.8	0.38
Other borrowed funds	—	—	—	1.9	0.2	14.07
Long-term debt	15.6	1.0	8.57	16.4	0.9	7.34
Subordinated debentures held by subsidiary trusts	86.9	3.5	5.38	83.2	3.0	4.82
Total interest bearing liabilities	$ 8,691.7	$ 47.2	0.73%	$ 7,878.9	$ 28.2	0.48%
Non-interest bearing deposits	3,261.5			2,892.4		
Other non-interest bearing liabilities	157.0			96.8		
Stockholders' equity	1,864.5			1,484.2		
Total liabilities and stockholders' equity	$ 13,974.7			$ 12,352.3		
Net FTE interest income		$ 368.3			$ 315.3	
Less FTE adjustments [2]		(1.5)			(1.7)	
Net interest income from consolidated statements of income		$ 366.8			$ 313.6	
Interest rate spread			3.79%			3.70%
Net FTE interest margin [3]			4.01%			3.84%
Cost of funds, including non-interest bearing demand deposits [4]			0.53%			0.35%

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

(2) Interest income and average rates for tax exempt loans and securities are presented on a fully taxable equivalent, or FTE, basis utilizing the 21% federal income tax rate.

(3) 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.

Our net interest income increased $15.5 million, or 14.1%, to $125.5 million during the three months ended September 30, 2019, as compared to $110.0 million for the same period in 2018, and increased $53.2 million, or 17.0%, to $366.8 million during the nine months ended September 30, 2019, as compared to $313.6 million for the same period in 2018. The increases in 2019 are primarily the result of increased yields on earning assets and the impact of the IIBK and CMYF acquisitions.

Net interest income included interest accretion related to the fair valuation of acquired loans of $4.0 million during the three months ended September 30, 2019, of which $1.2 million was the result of early loan payoffs, and $13.2 million during the nine months ended September 30, 2019, of which $5.6 million was the result of early loan payoffs. This compares to interest accretion of $3.6 million during the three months ended September 30, 2018, of which $1.5 million was the result of early loan payoffs, and $9.6 million during the nine months ended September 30, 2018, of which $3.7 million was the result of early loan payoffs.

Recoveries of charged-off interest also impact net interest income. Net charged-off interest recoveries were $0.4 million and $2.8 million during the three and nine months ended September 30, 2019, as compared to $0.7 million and $3.3 million during the same period in 2018.

Our net FTE interest margin ratio increased five basis points to 3.93% for the three months ended September 30, 2019, as compared to 3.88% for the same period in 2018. Similarly, our net FTE interest margin ratio increased 17 basis points to 4.01% for the nine months ended September 30, 2019, as compared to 3.84% for the same period in 2018. Increases in net FTE interest margin ratio during the three months ended September 30, 2019, as compared to the same period in 2018, and during the nine months ended September 30, 2019, as compared to the same period in 2018 were primarily due to increases in average outstanding loans and higher yields on interest earning assets, which were partially offset by increases in funding costs.

Exclusive of the impact of the recovery of charged-off interest and the impact of interest accretion on acquired loans, our net FTE interest margin ratio was 3.80% during the three months ended September 30, 2019, as compared to 3.73% for the same period in 2018, or a seven basis point increase, and 3.83% during the nine months ended September 30, 2019, as compared to 3.68% in the same period in 2018, or a 15 basis point increase.

The table below sets forth 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) for the three and nine month periods ended September 30, 2019 and 2018. Changes which are not due solely to volume or rate have been allocated to these categories based on the respective percent changes in average volume and average rate as they compare to each other.

Analysis of Interest Changes Due to Volume and Rates

(Dollars in millions)	Three Months Ended September 30, 2019 compared with Three Months Ended September 30, 2018			Nine Months Ended September 30, 2019 compared with Nine Months Ended September 30, 2018		
	Volume	Rate	Net	Volume	Rate	Net
Interest earning assets:						
Loans [1]	$ 11.9	$ 4.2	$ 16.1	$ 39.1	$ 20.9	$ 60.0
Investment securities [1]	0.4	0.7	1.1	0.1	4.5	4.6
Interest bearing deposits in banks	2.2	0.7	2.9	3.4	4.0	7.4
Total change	14.5	5.6	20.1	42.6	29.4	72.0
Interest bearing liabilities:						
Demand deposits	0.1	(0.2)	(0.1)	0.4	1.2	1.6
Savings deposits	0.4	1.4	1.8	0.8	6.6	7.4
Time deposits	0.9	1.9	2.8	2.2	6.1	8.3
Repurchase agreements	—	0.3	0.3	0.1	1.2	1.3
Other borrowed funds	(0.1)	—	(0.1)	(0.2)	—	(0.2)
Long-term debt	(0.1)	—	(0.1)	—	0.1	0.1
Subordinated debentures held by subsidiary trusts	—	—	—	0.1	0.4	0.5
Total change	1.2	3.4	4.6	3.4	15.6	19.0
Increase in FTE net interest income [1]	$ 13.3	$ 2.2	$ 15.5	$ 39.2	$ 13.8	$ 53.0

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

Provision for Loan Losses

Fluctuations in the provision for loan losses reflect management's estimate of possible loan losses based upon the composition of our loan portfolio, evaluation of the borrowers' ability to repay, collateral value underlying loans, loan loss trends and estimated effects of current economic conditions on our loan portfolio. The Company recorded a provision for loan losses of $2.6 million during the three months ended September 30, 2019, as compared to $2.0 million during same period in 2018. During the nine months ended September 30, 2019, we recorded a provision for loan losses of $10.1 million, as compared to $7.0 million during the same period in 2018. Higher levels of the provision were attributable to organic loan growth and an increase in loans migrating from the acquired loan portfolio to the originated loan portfolio due to renewals, refinancing, and restructure year-over-year in addition to higher net-charge-offs during the nine months ended September 30, 2019. Changes in the provision for loan loss between quarters are reflective of management's assessment of the adequacy of our allowance for loan losses.

For information regarding our non-performing loans, see “Financial Condition – Non-Performing Assets” included herein. For more information on our allowance for loan losses, see “Financial Condition – Allowance for Loan Losses” included herein.

Non-interest Income

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

Non-interest income

(Dollars in millions)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ Change	% Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ Change	% Change
Payment services revenues	$ 10.8	$ 10.1	$ 0.7	6.9 %	$ 30.7	$ 33.5	$ (2.8)	(8.4)%
Mortgage banking revenues	10.5	6.7	3.8	56.7	24.3	19.3	5.0	25.9
Wealth management revenues	5.9	5.8	0.1	1.7	17.8	17.5	0.3	1.7
Service charges on deposit accounts	5.3	5.7	(0.4)	(7.0)	15.7	16.6	(0.9)	(5.4)
Other service charges, commissions and fees	4.2	3.4	0.8	23.5	12.7	11.1	1.6	14.4
Investment securities gains (losses), net	0.1	—	0.1	NM	0.1	—	0.1	NM
Other income	4.0	4.5	(0.5)	(11.1)	13.4	11.0	2.4	21.8
Total non-interest income	$ 40.8	$ 36.2	$ 4.6	12.7 %	$ 114.7	$ 109.0	$ 5.7	5.2 %

Total non-interest income increased $4.6 million, or 12.7%, to $40.8 million for the three months ended September 30, 2019, as compared to $36.2 million for the same period in 2018 and increased $5.7 million, or 5.2%, to $114.7 million for the nine months ended September 30, 2019, as compared to $109.0 million for the same period in 2018. Significant components of theses fluctuations are discussed below.

Payment services revenues consist of interchange fees that merchants pay for processing electronic payment transactions and ATM service fees. Payment services revenues increased $0.7 million, or 6.9%, to $10.8 million during the three months ended September 30, 2019, as compared to $10.1 million earned during the same period in 2018. For the nine months ended September 30, 2019, payment services revenue decreased $2.8 million, or 8.4%, to $30.7 million, as compared to $33.5 million during the same period in 2018. A decrease in payment services revenues of $6.7 million during the nine months ended September 30, 2019 was attributable to the Durbin Amendment rule (which limits the amount of interchange fees certain banks may charge) which impacted our Company beginning July 1, 2018. This decrease was offset by increases in debit card and credit card volume resulting in higher interchange revenues during the nine months ended September 30, 2019.

Mortgage banking revenues include origination and processing fees on residential real estate loans held for sale and gains on residential real estate loans sold to third parties. Mortgage banking revenues increased $3.8 million, or 56.7%, to $10.5 million during the three months ended September 30, 2019, as compared to $6.7 million during the same period in 2018. For the nine months ended September 30, 2019, mortgage banking revenues increased $5.0 million, or 25.9%, to $24.3 million as compared to $19.3 million during the same period in 2018. These increases are due primarily to increased mortgage loan production as a result of higher levels of refinance activity and lower interest rates. Our overall loan production for originated home purchases was approximately 66.0% and 73.8% of production for the three and nine months ended September 30, 2019, respectively, compared to 85.1% and 78.3% for the same periods in 2018.

Other service charges, commissions and fees primarily include mortgage servicing fees, fees earned on certain derivative interest rate contracts, and insurance commissions. Other service charges, commissions and fees increased $0.8 million, or 23.5%, to $4.2 million during the three months ended September 30, 2019, as compared to $3.4 million during the same period in 2018. For the nine months ended September 30, 2019, other service charges, commissions and fees increased $1.6 million, or 14.4%, to $12.7 million as compared to $11.1 million during the same period in 2018, primarily due to the IIBK and CMYF acquisitions and an increase in mortgage loan servicing fee income year-over-year, as a result of an increase in the number of loans serviced and additional fees earned on derivative interest rate swap contracts offered to customers.

Other income primarily includes company-owned life insurance revenues, check printing income, agency stock dividends and gains on sales of miscellaneous assets. Other income decreased $0.5 million, or 11.1%, to $4.0 million during the three months ended September 30, 2019, as compared to $4.5 million during the same period in 2018 and increased $2.4 million, or 21.8%, to $13.4 million during the nine months ended September 30, 2019, as compared to $11.0 million during the same period in 2018. The increases in other income between periods was primarily due to net gains on the sale of premises and equipment, life insurance proceeds, and other normal fluctuations in other income.

Non-interest Expense

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

Non-interest expense

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	$ Change	% Change	2019	2018	$ Change	% Change
Salaries and wages	$ 40.6	$ 36.8	$ 3.8	10.3 %	$ 117.1	$ 105.7	$ 11.4	10.8 %
Employee benefits	11.9	11.9	—	—	40.3	35.5	4.8	13.5
Outsourced technology services	7.9	6.8	1.1	16.2	23.9	20.9	3.0	14.4
Occupancy, net	7.1	6.5	0.6	9.2	21.2	18.8	2.4	12.8
Furniture and equipment	3.3	3.5	(0.2)	(5.7)	10.2	9.5	0.7	7.4
OREO expense, net of income	(0.8)	0.2	(1.0)	NM	(0.5)	0.3	(0.8)	NM
Professional fees	3.5	1.9	1.6	84.2	7.7	5.2	2.5	48.1
FDIC insurance premiums	0.4	1.4	(1.0)	(71.4)	3.5	4.3	(0.8)	(18.6)
Mortgage servicing rights amortization	1.2	0.8	0.4	50.0	3.1	2.3	0.8	34.8
Core deposit intangibles amortization	3.0	2.0	1.0	50.0	8.3	5.5	2.8	50.9
Other expenses	17.4	15.8	1.6	10.1	50.8	48.1	2.7	5.6
Acquisition related expenses	3.8	3.1	0.7	22.6	19.6	5.4	14.2	NM
Total non-interest expense	$ 99.3	$ 90.7	$ 8.6	9.5 %	$ 305.2	$ 261.5	$ 43.7	16.7 %

Non-interest expense increased $8.6 million, or 9.5%, to $99.3 million during the three months ended September 30, 2019 as compared to $90.7 million during the same period in 2018 and $43.7 million, or 16.7%, to $305.2 million during the nine months ended September 30, 2019 as compared to $261.5 million during the same period in 2018. Expenses related to acquisitions include legal fees, consulting fees, investment banking fees, conversion and contract termination costs, and retention and severance compensation costs. Other significant components of non-interest expense are discussed below. For additional information regarding acquisitions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments" included herein and "Note 2 – Acquisitions" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report.

Salaries and wages expense increased $3.8 million, or 10.3%, to $40.6 million during the three months ended September 30, 2019, as compared to $36.8 million during the same period in 2018 and $11.4 million, or 10.8%, to $117.1 million during the nine months ended September 30, 2019 as compared to $105.7 million during the same period in 2018. The increase reflects higher levels of wages related to additional employees as a result of the INB, IIBK, and CMYF acquisitions.

Employee benefits expense was stable at $11.9 million during the three months ended September 30, 2019, as compared to the same period in 2018. Employee benefits expense increased $4.8 million, or 13.5%, to $40.3 million during the nine months ended September 30, 2019 as compared to $35.5 million during the same period in 2018, primarily due to higher long-term incentive costs as a result of the Company achieving certain growth goals and higher benefit costs related to the additional employees as a result of the INB, IIBK, and CMYF acquisitions.

Outsourced technology services expense increased $1.1 million, or 16.2%, to $7.9 million during the three months ended September 30, 2019, as compared to $6.8 million during the same period in 2018 and increased $3.0 million, or 14.4%, to $23.9 million during the nine months ended September 30, 2019, as compared to $20.9 million during the same period in 2018. The increases are primarily due to technology expenses resulting from the INB, IIBK, and CMYF acquisitions.

Occupancy, net expense increased $0.6 million, or 9.2%, to $7.1 million during the three months ended September 30, 2019, as compared to $6.5 million during the same period in 2018 and increased $2.4 million, or 12.8%, to $21.2 million during the nine months ended September 30, 2019, as compared to $18.8 million during the same period in 2018. The increases are primarily due to additional operating expenses as a result of the INB, IIBK, and CMYF acquisitions.

Professional fees increased $1.6 million, or 84.2%, to $3.5 million during the three months ended September 30, 2019, as compared to $1.9 million during the same period in 2018 and increased $2.5 million, or 48.1%, to $7.7 million during the nine months ended September 30, 2019, as compared to $5.2 million during the same period in 2018. The increases are related to a reclassification of legal and audit fees from other expenses into professional fees in addition to fees incurred related to our re-branding efforts of the Company in 2019.

Core deposit intangibles represent the intangible value of depositor relationships resulting from deposit liabilities assumed, as a result of acquisitions, and are amortized based on the estimated useful lives of the related deposits. Core deposit intangibles amortization expense increased $1.0 million, or 50.0%, to $3.0 million during the three months ended September 30, 2019, as compared to $2.0 million during the same period in 2018 and $2.8 million, or 50.9%, to $8.3 million during the nine months ended September 30, 2019, as compared to $5.5 million during the same period in 2018. The increases are primarily due to additional amortization expense resulting from the INB, IIBK, and CMYF acquisitions.

Other expenses primarily include advertising and public relations costs; office supply, postage, freight, telephone and travel expenses; donations expense; debit and credit card expenses; board of director fees; legal expenses; and, other losses. Other expenses increased $1.6 million, or 10.1%, to $17.4 million during the three months ended September 30, 2019, as compared to $15.8 million during the same period in 2018 and $2.7 million, or 5.6%, to $50.8 million during the nine months ended September 30, 2019, as compared to $48.1 million during the same period in 2018. These increases are primarily due to additional costs related to the INB, IIBK, and CMYF acquisitions.

Income Tax Expense

Our effective tax rate was 23.8% for the three months ended September 30, 2019 compared to 22.6% for the three months ended September 30, 2018 and 22.6% for the nine months ended September 30, 2019, as compared to 22.3% for the same period in 2018.

Financial Condition

Total Assets

Total assets increased $1,401.4 million, or 10.5%, to $14,701.6 million as of September 30, 2019, from $13,300.2 million as of December 31, 2018, primarily as a result of the recent acquisitions of IIBK and CMFY and an increase in organic loan growth. Significant fluctuations in balance sheet accounts are discussed below.

Total Loans

Total loans increased $597.8 million, or 7.0%, to $9,101.5 million as of September 30, 2019, as compared to $8,503.7 million as of December 31, 2018, due to $417.1 million of IIBK and CMYF acquired loans and $180.7 million of organic growth. Organic growth was primarily in commercial, agricultural, commercial real estate, agricultural real estate, and loans held for sale.

Loans Held for Investment

Loans held for investment increased $522.2 million, or 6.2%, to $8,992.6 million as of September 30, 2019, as compared to $8,470.4 million as of December 31, 2018. The loans held for investment portfolios are discussed in greater detail below:

Total real estate loans increased $375.6 million, or 6.4%, to $6,209.1 million as of September 30, 2019, as compared to $5,833.5 million as of December 31, 2018. Exclusive of $328.0 million of IIBK and CMYF acquired loans, total real estate loans increased $47.6 million, or 0.8%. Within the portfolio, commercial real estate loans increased organically $81.3 million, or 2.5%, to $3,468.2 million, construction real estate loans increased organically $18.9 million, or 2.3%, to $958.1 million, residential real estate loans decreased organically $61.7 million, or 4.0%, and agricultural real estate loans increased organically $9.1 million, or 4.2% as of September 30, 2019.

Total consumer loans decreased $3.3 million, or 0.3%, to $1,066.9 million as of September 30, 2019, from $1,070.2 million as of December 31, 2018. Exclusive of $14.6 million of IIBK and CMYF acquired loans, total consumer loans decreased $17.9

million, or 1.7%. The decrease was primarily impacted by higher unsecured consumer credit underwriting standards impacting the consumer direct portfolio offset by an increase in the indirect portfolio.

Commercial loans increased $112.3 million, or 8.6%, to $1,422.6 million as of September 30, 2019, from $1,310.3 million as of December 31, 2018. Exclusive of $61.4 million of IIBK and CMYF acquired loans, commercial loans increased $50.9 million, or 3.9%. This growth primarily occurred in Idaho, Montana, and Eastern Washington.

Agricultural loans increased $37.9 million, or 14.9%, to $292.7 million as of September 30, 2019, from $254.8 million as of December 31, 2018. Exclusive of $12.6 million of IIBK and CMYF acquired loans, agricultural loans increased $25.3 million, or 9.9%. This growth was primarily attributable to seasonal draw downs in operating lines of credit.

Loans Held for Sale

Loans held for sale consist of residential mortgage loans pending sale to investors in the secondary market. Loans held for sale increased $75.6 million, or 227.0%, to $108.9 million as of September 30, 2019, compared to $33.3 million as of December 31, 2018, primarily due to increases in mortgage loan origination volumes.

Non-performing Assets

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

Non-Performing Assets and Troubled Debt Restructurings

(Dollars in millions)	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Non-performing loans:					
Non-accrual loans	$ 50.1	$ 41.0	$ 45.1	$ 54.3	$ 61.2
Accruing loans past due 90 days or more	7.0	5.2	7.1	3.8	5.2
Total non-performing loans	57.1	46.2	52.2	58.1	66.4
OREO	17.8	27.6	21.1	14.4	17.3
Total non-performing assets	$ 74.9	$ 73.8	$ 73.3	$ 72.5	$ 83.7
Troubled debt restructurings not included above	$ 5.5	$ 5.7	$ 5.8	$ 5.6	$ 5.9
Non-performing loans to total loans	0.63%	0.51%	0.61%	0.68%	0.78%
Non-performing assets to total loans and OREO	0.82	0.81	0.86	0.85	0.98
Non-performing assets to total assets	0.51	0.51	0.54	0.55	0.63

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

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 millions)	September 30, 2019	Percent of Total	December 31, 2018	Percent of Total
Real estate:				
Commercial	$ 14.3	25.0%	$ 10.0	17.2%
Construction:				
Land acquisition and development	1.1	1.9	3.9	6.7
Residential	1.2	2.1	1.0	1.7
Commercial	0.5	0.9	0.2	0.3
Total construction	2.8	4.9	5.1	8.7
Residential	4.5	7.9	6.8	11.8
Agricultural	5.2	9.1	12.6	21.7
Total real estate	26.8	46.9	34.5	59.4
Consumer	4.1	7.2	3.5	6.0
Commercial	23.1	40.5	17.1	29.4
Agricultural	3.1	5.4	3.0	5.2
Total non-performing loans	$ 57.1	100.0%	$ 58.1	100.0%

Non-accrual loans. We generally place loans, excluding acquired credit impaired loans, on non-accrual status when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on non-accrual status, any interest previously accrued but not collected is reversed from income. If all loans on non-accrual status had been current in accordance with their original terms, gross income of approximately $2.0 million and $1.6 million would have been accrued for the nine months ended September 30, 2019 and 2018, respectively. Non-accrual loans decreased approximately $4.2 million, to $50.1 million as of September 30, 2019, from $54.3 million as of December 31, 2018. Accruing loans past due 90 days or more increased $3.2 million, or 84.2%, primarily due to an increase in real estate and commercial loans. Other real estate owned increased $3.4 million, or 23.6%, from December 31, 2018. The increase in other real estate owned was driven by $14.0 million in foreclosures and the IIBK acquired other real estate owned, offset by $12.3 million in dispositions.

Allowance for Loan Losses

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

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 loans. No specific valuation allowances are recorded for impaired loans that are adequately secured.

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

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

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

Loans acquired in business combinations are recorded at fair value with no allowance for loan losses on the date of acquisition. Subsequent to the acquisition date, an allowance for loan loss is recorded for the emergence of new probable and estimable losses on loans acquired without evidence of credit impairment. Loans acquired with evidence of credit impairment are regularly monitored and to the extent that the performance has deteriorated from the Company's expectations at the date of acquisition, an allowance for loan losses is established. As of September 30, 2019, the Company determined that an allowance of $0.7 million related to loans acquired in prior year acquisitions with evidence of credit impairment was required under GAAP.

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

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

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 millions)	Three Months Ended				
	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
Balance at beginning of period	$ 74.2	$ 72.4	$ 73.0	$ 73.6	$ 74.1
Provision charged to operating expense	2.6	3.8	3.7	1.6	2.0
Charge offs:					
Real estate					
Commercial	—	—	0.2	0.5	0.3
Construction	—	0.6	1.3	0.4	0.3
Residential	0.3	0.3	0.6	—	0.1
Consumer	2.8	3.3	3.0	2.8	3.0
Commercial	1.6	1.1	0.8	1.0	1.1
Agricultural	—	0.3	0.1	—	—
Total charge-offs	4.7	5.6	6.0	4.7	4.8
Recoveries:					
Real estate					
Commercial	0.1	0.2	0.2	0.4	—
Construction	0.6	0.6	—	0.2	0.5
Residential	0.1	0.4	—	0.5	0.1
Consumer	0.8	1.2	1.1	0.9	1.2
Commercial	1.3	1.2	0.4	0.5	0.5
Total recoveries	2.9	3.6	1.7	2.5	2.3
Net charge-offs	1.8	2.0	4.3	2.2	2.5
Balance at end of period	$ 75.0	$ 74.2	$ 72.4	$ 73.0	$ 73.6
Period end loans	$ 9,101.5	$ 9,059.3	$ 8,493.2	$ 8,503.7	$ 8,518.0
Average loans	9,053.6	8,948.3	8,467.9	8,520.7	8,128.9
Net loans charged-off to average loans, annualized	0.08%	0.09%	0.21%	0.10%	0.12%
Allowance to period end loans	0.82	0.82	0.85	0.86	0.86

Our allowance for loan losses was $75.0 million, or 0.82% of period end loans, as of September 30, 2019, as compared to $73.0 million, or 0.86% of period end loans, as of December 31, 2018. The decrease in the percentage from December 31, 2018 is primarily a result of higher loan balances from the INB, IIBK, and CMYF acquired loans, which were recorded at fair value for INB and provisionally recorded at fair value for IIBK and CMYF in accordance with GAAP, with no corresponding allowance for loan losses in purchase accounting.

Although we have established our allowance for loan losses in accordance with GAAP and we believe that our allowance for loan losses is 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 $149.6 million, or 5.6%, to $2,827.1 million, or 19.2% of total assets, as of September 30, 2019, from $2,677.5 million, or 20.1% of total assets, as of December 31, 2018. Exclusive of $78.7 million of IIBK and CMYF acquired securities, investment securities increased $70.9 million, or 2.6%. As of September 30, 2019, the estimated duration of our investment portfolio was 2.2 years, as compared to 2.5 years as of December 31, 2018.

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, 2019, we had investment securities with fair values aggregating $308.1 million that had been in a continuous loss position more than twelve months. Gross unrealized losses on these securities of $1.9 million as of September 30, 2019 were attributable to changes in interest rates. As the Company does not have the intent to sell any of the available-for-sale securities and it is more likely than not that the Company will not have to sell any securities before a recovery in cost, no impairment losses were recorded during the three months ended September 30, 2019 or 2018.

At December 31, 2018, we had $406.8 million of investment securities classified as held to maturity. As a result of the adoption of ASU 2017-12 discussed in "Note 16 – Recent Authoritative Accounting Guidance" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report, the Company transferred investment securities classified as held-to-maturity to investment securities available-for-sale. At the time of transfer, the amortized cost and fair value of these securities totaled $281.1 million and $275.0 million, respectively. In addition, the unrealized loss of $6.0 million was recorded in the consolidated statement of comprehensive income.

Goodwill and Other Intangible Assets.

Goodwill increased $75.9 million, or 13.9%, to $622.6 million as of September 30, 2019, from $546.7 million as of December 31, 2018, attributable to the finalization of the INB acquisition and provisional goodwill of $76.3 million recorded in conjunction with the acquisitions of IIBK and CMYF.

Company-Owned Life Insurance.

Company-owned life insurance increased $17.7 million, or 6.4%, to $292.8 million as of September 30, 2019, from $275.1 million as of December 31, 2018, primarily attributable to provisional amounts of $15.2 million recorded in conjunction with the acquisition of IIBK.

Premises and equipment.

Premises and equipment, net of accumulated depreciation increased $57.6 million, or 23.5%, to $302.8 million as of September 30, 2019, from $245.2 million as of December 31, 2018, primarily due to $26.7 million of premises and equipment acquired with the acquisition of IIBK and CMYF and the Company recognizing right-of-use assets related to leases, as a result of the adoption of ASU 2016-02 discussed in "Note 1 – Basis of Accounting" and "Note 16 – Recent Authoritative Accounting Guidance" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report.

Core Deposit Intangibles, Net of Accumulated Amortization.

Core deposit intangibles, net of accumulated amortization, increased $8.1 million, or 14.2%, to $65.0 million as of September 30, 2019, from $56.9 million as of December 31, 2018, attributable to provisional core deposit intangibles of $16.6 million recorded in conjunction with the acquisitions of IIBK and CMYF offset by amortization expense.

Other real estate owned.

Other real estate owned increased $3.4 million, or 23.6%, to $17.8 million as of September 30, 2019, from $14.4 million as of December 31, 2018. The increase in other real estate owned was driven by $14.0 million in foreclosures and the IIBK acquired other real estate owned, offset by $12.3 million in dispositions.

Other Assets

Other assets increased $37.4 million, or 23.5%, to $196.5 million as of September 30, 2019, from $159.1 million as of December 31, 2018. The increase is primarily attributable to provisional amounts of $8.7 million recorded for IIBK and CMYF assets in conjunction with the acquisitions, an increase in Federal Reserve stock required as a result of the acquisitions, and an increase related to our interest rate swap contracts.

Deposits

Our deposits consist of non-interest bearing and interest bearing demand, savings, individual retirement and time deposit accounts. Total deposits increased $1,118.9 million, or 10.5%, to $11,799.6 million as of September 30, 2019, from $10,680.7 million as of December 31, 2018. The increase is attributable to $706.7 million of IIBK and CMYF acquired deposits and an increase of $412.2 million as a result of organic growth.

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

Deposits

(Dollars in millions)	September 30, 2019	Percent of Total	December 31, 2018	Percent of Total
Non-interest bearing demand	$ 3,639.7	30.8%	$ 3,158.3	29.6%
Interest bearing:				
Demand	3,054.1	25.9	2,957.5	27.7
Savings	3,570.8	30.3	3,247.9	30.4
Time, $100 and over	705.2	6.0	547.6	5.1
Time, other [(1)]	829.8	7.0	769.4	7.2
Total interest bearing	$ 8,159.9	69.2%	$ 7,522.4	70.4%
Total deposits	$ 11,799.6	100.0%	$ 10,680.7	100.0%

(1) Included in Time, other are Certificate of Deposit Account Registry Service, or CDARS, deposits of $113.7 million and brokered deposits of $2.9 million as of September 30, 2019, compared to $87.1 million and $24.1 million as of December 31, 2018, respectively.

Securities Sold Under Repurchase Agreements.

In addition to deposits, repurchase agreements with commercial depositors, which include municipalities, provide an additional source of funds. Under repurchase agreements, deposit balances are invested in short-term U.S. government agency securities overnight and are then repurchased the following day. All outstanding repurchase agreements are due in one day and balances fluctuate in the normal course of business. Repurchase agreement balances decreased $75.5 million, or 10.6%, to $636.9 million as of September 30, 2019, from $712.4 million as of December 31, 2018. Exclusive of the provisional amount of $30.4 million of securities sold under repurchase agreements acquired from IIBK, securities sold under repurchase agreements decreased $105.9 million, or 14.9%.

Accounts Payable and Accrued Expenses.

Accounts payable and accrued expenses increased $51.7 million, or 54.9%, to $145.8 million as of September 30, 2019, from $94.1 million as of December 31, 2018, primarily due to the Company recognizing lease liabilities as a result of the adoption of ASU 2016-02 discussed in “Note 1 – Basis of Accounting” and “Note 16 – Recent Authoritative Accounting Guidance” in the accompanying “Notes to Unaudited Consolidated Financial Statements” included in this report.

Deferred Tax Asset / Liability

Our deferred tax liability, net increased $15.0 million, or 174.4%, to $23.6 million as of September 30, 2019, from $8.6 million as of December 31, 2018, primarily as a result of deferred taxes recorded on mark-to-market gains in 2019.

Capital Resources and Liquidity Management

Stockholders’ equity is influenced primarily by earnings, dividends, sales and redemptions of common stock, and changes in the unrealized holding gains or losses, net of taxes, on available-for-sale investment securities. Stockholders’ equity increased $288.7 million, or 17.0%, to $1,982.6 million as of September 30, 2019, from $1,693.9 million as of December 31, 2018, due to the retention of earnings, other comprehensive income, stock-based compensation, proceeds from stock option exercises, and the issuance of additional shares of Class A common stock with an aggregate value of $176.1 million as consideration for the IIBK and CMYF acquisitions. This increase was offset by stock repurchases of vested restricted shares tendered in lieu of cash for payment of income tax withholding amounts by participants, and cash dividends paid.

On October 30, 2019, the Company’s board of directors declared a dividend of $0.31 per common share, payable on November 19, 2019, to common stockholders of record as of November 9, 2019. The dividend equates to a 3.2% annual yield based on the $39.30 average closing pricing of the Company’s common stock during the third quarter of 2019.

On June 11, 2019, the Company announced the board of directors adopted a new stock repurchase program to replace the program that had been in place since 2015 and which had only 24,123 shares of Class A common stock remaining to be purchased thereunder. Under the new stock repurchase program, the Company may repurchase up to 2.5 million of its outstanding shares of Class A common stock. To date the Company has not repurchased any shares under the current authorization.

On July 2, 2013, the Board of Governors of the Federal Reserve Bank issued a final rule implementing a revised regulatory capital framework for U.S. banks in accordance with the Basel III international accord and satisfying related mandates under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The revised regulatory capital framework (the "Basel III Capital Rules") substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions by defining the components of capital and addressing other issues affecting the numerator in banking institutions' regulatory capital ratios, addressing risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replacing the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules became effective for the Company on January 1, 2015, subject to a phase-in period for certain provisions. The capital conservation buffer required under Basel III began to phase in starting January 1, 2016 and became fully implemented on January 1, 2019.

As of September 30, 2019 and December 31, 2018, the Company had capital levels that, in all cases, exceeded the guidelines to be deemed "well-capitalized." For additional information regarding our capital levels, see "Note 11 – 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 our subsidiary Bank and, therefore, we provide for our own liquidity. Our primary 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 Bank to pay dividends to us. Management believes that such limitations will not impact our ability to meet our ongoing short-term cash obligations.

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

Recent Accounting Pronouncements

See "Note 16 – 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, 2019, 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, 2018.

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, 2019, 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, 2019 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, 2019 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, 2018.

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, 2018.

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, 2019.

(b) Not applicable.

(c) The following table provides information with respect to purchases made of our Class A common stock by or on behalf of us or any "affiliated purchasers" (as defined in Rule 10b-18(a)(3) under the Exchange Act), during the three months ended September 30, 2019.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
July 2019	—	$ —	—	2,500,000
August 2019	675	39.05	—	2,500,000
September 2019	—	—	—	2,500,000
Total	675	$ 39.05	—	2,500,000

(1) Stock repurchases were redemptions of vested restricted shares tendered in lieu of cash for payment of income tax withholding amounts by participants of the Company's 2015 Equity Compensation Plan.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1*	First Interstate BancSystem, Inc. Third Amended and Restated Articles of Incorporation.
31.1*	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.
32**	18 U.S.C. Section 1350 Certifications.
101*	Interactive Data File - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
104*	Cover Page Interactive Data File - The cover page XBRL tags are embedded within the inline XBRL document (included in Exhibit 101)

* Filed herewith.
** Furnished herewith.

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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 6, 2019	By:	/S/ KEVIN P. RILEY
			Kevin P. Riley President and Chief Executive Officer
Date:	November 6, 2019	By:	/S/ MARCY D. MUTCH
			Marcy D. Mutch Executive Vice President and Chief Financial Officer

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Section 2: EX-3.1 (EXHIBIT 3.1)

Exhibit 3.1

THIRD AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

FIRST INTERSTATE BANCSYSTEM, INC.

ARTICLE I

The name of this corporation is First Interstate BancSystem, Inc. (hereinafter, the "Corporation").

ARTICLE II

The address of the Corporation's registered office in the State of Montana is 26 W. Sixth Ave., P.O. Box 1691, Helena, Montana 59624-1691. The name of its registered agent at such address is Corporation Service Company. The address of the Corporation's registered office and the name of its registered agent at such address may be as subsequently designated by the Board of Directors of the Corporation or as subsequently set forth in an annual report on file with the Montana Secretary of State.

ARTICLE III

The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Montana Business Corporation Act.

ARTICLE IV

Section 1. Authorized Shares. The Corporation is authorized to issue 100,000,000 shares of Class A Common Stock, no par value per share (the "Class A Common Stock"), 100,000,000 shares of Class B Common Stock, no par value per share (the "Class B Common Stock", and together with the Class A Common Stock, the "Common Stock") and 100,000 shares of Preferred Stock, no par value per share. The number of authorized shares of any class or classes of stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of at least a majority of the voting power of the issued and outstanding shares of Common Stock, voting together as a single class.

Section 2. Common Stock. A statement of the designations of each class of Common Stock and the powers, preferences and rights and qualifications, limitations or restrictions thereof is as follows:

(a) Voting Rights.

(i) Except as otherwise provided herein or by applicable law, the holders of shares of Class A Common Stock and Class B Common Stock shall at all times vote together as one class on all matters (including the election of directors) submitted to a vote or for the consent of the stockholders of the Corporation.

(ii) Each holder of shares of Class A Common Stock shall be entitled to one (1) vote for each share of Class A Common Stock held as of the applicable date on any matter that is submitted to a vote or for the consent of the stockholders of the Corporation.

(iii) Each holder of shares of Class B Common Stock shall be entitled to five (5) votes for each share of Class B Common Stock held as of the applicable date on any matter that is submitted to a vote or for the consent of the stockholders of the Corporation.

(b) Dividends. Subject to the preferences applicable to any series of Preferred Stock, if any, outstanding at any time, the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to share equally, on a per share basis, in such dividends and other distributions of cash, property or shares of stock of the Corporation as may be declared by the Board of Directors from time to time with respect to the Common Stock out of assets or funds of the Corporation legally available therefor; provided, however, that in the event that such dividend is paid in the form of shares of Common Stock or rights to acquire Common Stock, the holders of Class A Common Stock shall receive Class A Common Stock or rights to acquire Class A Common Stock, as the case may be, and the holders of Class B Common Stock shall receive Class B Common Stock or rights to acquire Class B Common Stock, as the case may be.

(c) Liquidation. Subject to the preferences available to any series of Preferred Stock, if any, outstanding at any time, in the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the Corporation, the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to share equally, on a per share basis, all assets of the Corporation of whatever kind available for distribution to the holders of Common Stock.

(d) Subdivision, Combination, Reorganization and Reclassification.

(i) If the Corporation in any manner subdivides or combines the outstanding shares of one class of Common Stock, the outstanding shares of the other class of Common Stock will be subdivided or combined in the same proportion and manner.

(ii) If the outstanding shares of one class of Common Stock are changed into the same or a different number of shares of any other class of stock or other securities or property, whether by reorganization, reclassification, merger, consolidation or otherwise (other than a subdivision or combination provided for in Section 3(d)(i) above), the outstanding shares of the other class of Common Stock will be changed in the same proportion and manner.

(e) Equal Status. Except as expressly provided in this Article IV, Class A Common Stock and Class B Common Stock shall have the same rights and privileges and rank equally, share ratably and be identical in all respects as to all matters.

(f) Conversion.

(i) As used in this Section 3(f), the following terms shall have the following meanings:

(1) "Class B Stockholder" shall mean a holder of any shares of Class B Common Stock, including (a) a holder of any shares of Class B Common Stock (including any officers, directors, consultants or employees of the Corporation) issued pursuant to outstanding awards granted under any stock option, restricted stock and/or similar plan of the Corporation, (b) a holder of any shares of Class B Common Stock issued in connection with dividends and distributions, subdivisions or combinations, or reorganizations, reclassifications, mergers or consolidations as provided for herein, and (c) a holder of any shares of Class B Common Stock specifically permitted to receive such shares by Transfer under the provisions of this Section 3(f) that do not require conversion of such shares into shares of Class A Common Stock.

(2) "Eligible Family Stockholder" shall mean (a) any lineal descendant (including any descendant by legal adoption prior to age 18) of Homer A. Scott (a "Scott Family Descendant"), (b) any spouse by marriage through solemnization or declaration (excluding a spouse by common law marriage) of a Scott Family Descendant (a "Scott Family Spouse"), (c) any stepchild of a Scott Family Descendant whose parent, at the applicable time of Transfer, is a Scott Family Spouse of such Scott Family Descendant, (d) any estate, trust, account (including an individual retirement account), plan, conservatorship, custodianship or other fiduciary arrangement for the sole benefit of any one or more individuals described in (a), (b) or (c) above of this Section 3(f)(i)(2), (e) any "charitable remainder trust" within the meaning of Section 664 of the Internal Revenue

Code of 1986, as amended (the "Code"), provided the "noncharitable beneficiary" is one or more individuals or fiduciary arrangements described in (a), (b), (c) or (d) of this Section 3(f)(i)(2), and (f) any corporation, general partnership, limited partnership, limited liability partnership, limited liability company or other entity in which, at the applicable time of Transfer, each class of stock, partnership interest, membership interest or other ownership interest, as the case may be, is owned solely by one or more individuals or fiduciary arrangements described in (a), (b), (c) or (d) of this Section 3(f)(i)(2).

(3) "Permitted Transferee" shall mean, with respect to any individual Class B Stockholder, (a) any lineal descendant (including any descendant by legal adoption prior to age 18) of such Class B Stockholder (a "Descendant"), (b) any spouse by marriage through solemnization or declaration (excluding a spouse by common law marriage) of such Class B Stockholder or a Descendant (a "Spouse"), (c) any stepchild of such Class B Stockholder or a Descendant whose parent, at the applicable time of Transfer, is the Spouse of such Class B Stockholder or such Descendant, (d) any estate, trust, account (including an individual retirement account), plan, conservatorship, custodianship or other fiduciary arrangement for the sole benefit of such Class B Stockholder and/or any one or more individuals described in (a), (b) or (c) above of this Section 3(f)(i)(3), (e) any "charitable remainder trust" within the meaning of Section 664 of the Code provided the "noncharitable beneficiary" is one or more individuals or fiduciary arrangements described in (a), (b), (c) or (d) of this Section 3(f)(i)(3), and (f) any corporation, general partnership, limited partnership, limited liability partnership, limited liability company or other entity in which, at the applicable time of Transfer, each class of stock, partnership interest, membership interest or other ownership interest, as the case may be, is owned solely by such Class B Stockholder and/or any one or more individuals or fiduciary arrangements described in (a), (b), (c) or (d) of this Section 3(f)(i)(3).

(4) "Transfer" of a share of Class B Common Stock shall mean any sale, assignment, transfer, conveyance, hypothecation or other transfer or disposition of such share or any legal or beneficial interest in such share, whether or not for value and whether voluntary or involuntary or by operation of law. A "Transfer" shall also include, without limitation, a transfer of a share of Class B Common Stock to a broker or other nominee (regardless of whether there is a corresponding change in beneficial ownership), or the transfer of, or entering into a binding agreement with respect to, Voting Control over a share of Class B Common Stock by proxy or otherwise. Notwithstanding the foregoing, the following shall not be considered a "Transfer" within the meaning of this Section 3(f)(i)(4):

(a) the granting of a revocable proxy to officers or directors of the Corporation at the request of the Board of Directors of the Corporation in connection with actions to be taken at an annual or special meeting of stockholders;

(b) the granting of a proxy by an Eligible Family Stockholder to any other Eligible Family Stockholder who at all times during the term of such proxy is also a Class B Stockholder in connection with actions to be taken at an annual or special meeting of stockholders;

(c) the entering into a voting trust, voting agreement, shareholder agreement or other arrangement (with or without granting a proxy) by an Eligible Family Stockholder with one or more other Eligible Family Stockholders who at all times during the term of such voting trust, voting agreement, shareholder agreement or other arrangement are also Class B Stockholders and that is disclosed either in a Schedule 13D or Schedule 13G (including any successor forms thereof) filed with the Securities and Exchange Commission or in writing to the Secretary of the Corporation; or

(d) the pledge of shares of Class B Common Stock by a Class B Stockholder that creates a mere security interest in such shares pursuant to a bona fide loan or indebtedness transaction so long as the Class B Stockholder continues to exercise Voting Control over such pledged shares prior to any default thereunder; provided, however, that a foreclosure on such shares of Class B Common Stock or other similar action by the pledgee shall constitute a "Transfer."

(5) "Voting Control" with respect to a share of Class B Common Stock shall mean the power (whether exclusive or shared) to vote or direct the voting of such share of Class B Common Stock by proxy, voting agreement or otherwise.

(ii) Each share of Class B Common Stock shall be convertible into one (1) fully paid and nonassessable share of Class A Common Stock at the option of the holder thereof at any time upon written notice to the transfer agent of the Corporation.

(iii) Each share of Class B Common Stock shall automatically, without any further action, convert into one (1) fully paid and nonassessable share of Class A Common Stock upon a Transfer of such share, other than a Transfer:

(1) by a Class B Stockholder to any Permitted Transferee.

(2) by a Class B Stockholder that is an estate, trust, account (including an individual retirement account), plan, conservatorship, custodianship or other fiduciary arrangement to any person or entity that, as of March 5, 2010, was a beneficiary of such estate, trust, account (including an individual retirement account), plan, conservatorship, custodianship or other fiduciary arrangement in accordance with any agreement, terms or provisions applicable thereto or binding thereon as of March 5, 2010.

(3) by a Class B Stockholder that is a corporation, general partnership, limited partnership, limited liability partnership, limited liability company or other entity to any person or entity that, as of March 5, 2010, was a shareholder, partner, member or other beneficial owner of such corporation, general partnership, limited partnership, limited liability partnership, limited liability company or other entity in accordance with any agreement, terms or provisions applicable thereto or binding thereon as of March 5, 2010.

(4) by a Class B Stockholder who is an Eligible Family Stockholder to any other Eligible Family Stockholder.

(iv) The Corporation may, from time to time, establish such policies and procedures relating to the conversion of the Class B Common Stock to Class A Common Stock and the general administration of this dual class common stock structure, including the issuance of stock certificates or uncertificated shares with respect thereto, as it may deem necessary or advisable, and may require that holders of shares of Class B Common Stock furnish affidavits, documentation or other proof to the Corporation and/or the transfer agent as the Corporation deems necessary or advisable to verify the ownership of Class B Common Stock and to confirm that a conversion to Class A Common Stock has not occurred.

(v) In the event of a conversion of shares of Class B Common Stock to shares of Class A Common Stock pursuant to this Section 3, such conversion shall be deemed to have been made at the time that the Transfer of such shares occurred. Upon any conversion of Class B Common Stock to Class A Common Stock, all rights of the holder of shares of Class B Common Stock shall cease and the person or persons in whose name or names the certificate or certificates representing the shares of Class A Common Stock are to be issued shall be treated for all purposes as having become the record holder or holders of such shares of Class A Common Stock. Shares of Class B Common Stock that are converted into shares of Class A Common Stock as provided in this Section 3 shall be retired and may not be reissued.

(vi) If, on the record date for any meeting of stockholders of the Corporation, the number of shares of Class B Common Stock then outstanding constitutes less than twenty percent (20%) of the aggregate number of shares of Common Stock then outstanding, as determined by the Board of Directors of the Corporation, each share of Class B Common Stock then issued and outstanding shall thereupon be automatically converted as of such record date into one (1) fully paid and non-assessable share of Class A Common Stock and will have one (1) vote per share at such meeting. Upon making such determination, notice of each automatic conversion shall be given by the Corporation by means of a press release and written notice to all Class B Stockholders as soon as

practicable, but no later than the next meeting of stockholders of the Corporation, and the Secretary of the Corporation shall be instructed to, and shall promptly request from each Class B Stockholder that each Class B Stockholder promptly deliver, and each Class B Stockholder shall promptly deliver, the certificate representing each share of Class B Common Stock to the Corporation for exchange hereunder, together with instructions of transfer, in form satisfactory to the Corporation and the transfer agent, duly executed by such Class B Stockholder or such Class B Stockholder's duly authorized attorney.

(g) Reservation of Stock. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Class A Common Stock, solely for the purpose of effecting the conversion of the shares of Class B Common Stock, such number of its shares of Class A Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Class B Common Stock into shares of Class A Common Stock.

(h) Limitation on Further Issuance of Class B Common Stock. The Corporation shall not, without first obtaining the affirmative vote of the holders of not less than a majority of the outstanding shares of Class A Common Stock and Class B Common Stock, each voting as a separate class, issue any shares of Class B Common Stock other than shares of Class B Common Stock (i) issued or issuable to officers, directors, consultants or employees of the Corporation pursuant to outstanding awards granted under any stock option, restricted stock and/or similar plan of the Corporation existing as of March 5, 2010, or (ii) issued or issuable in connection with dividends and distributions, subdivisions or combinations, or reorganizations, reclassifications, mergers or consolidations, as provided for herein.

Section 3. Change in Control Transaction.

(a) The Corporation shall not (i) issue, in a transaction or series of related transactions, voting securities representing more than two percent (2%) of the total voting power of the Corporation before such issuance, to any person or persons acting as a group as contemplated in Rule 13d-5(b) under the Securities Exchange Act of 1934 (or any successor provision) (a "Group") such that, following such transaction or related transactions, such person or Group would hold more than fifty percent (50%) of the total voting power of the Corporation, after giving effect to such issuance or (ii) consummate a Change in Control Transaction without first obtaining the affirmative vote, at a duly called annual or special meeting of the stockholders of the Corporation, of the holders of the greater of: (A) a majority of the voting power of the issued and outstanding shares of capital stock of the Corporation then entitled to vote thereon, voting together as a single class, and (B) sixty-six and two-thirds percent (66.67%) of the voting power of the shares of capital stock present in person or represented by proxy at the stockholder meeting called to consider the Change in Control Transaction and entitled to vote thereon, voting together as a single class; provided, however, that unless all holders of Class A Common Stock and Class B Common Stock will receive, on a per share basis, the same type and same amount of consideration as a result of a Change in Control Transaction, the Corporation shall not consummate such Change in Control Transaction without first obtaining the affirmative vote, at a duly called annual or special meeting of the stockholders of the Corporation, of the holders of at least seventy percent (70%) of the voting power of the issued and outstanding shares of Class A Common Stock then entitled to vote thereon, voting as a separate class.

(b) If a Change in Control Transaction will occur and, during the twelve (12) month period prior to such Change in Control Transaction, any other person, corporation or entity (or any affiliate thereof or a Group in which such person, corporation, entity or affiliate is a member) acquired any shares of Class B Common Stock at any time during such twelve (12) month period (whether or not such Class B Common Stock converted to Class A Common Stock as a result of such acquisition), the Corporation shall not consummate such Change in Control Transaction with such person, corporation, entity, affiliate or Group without first obtaining the affirmative vote, at a duly called annual or special meeting of the stockholders of the Corporation, of the holders of at least seventy percent (70%) of the voting power of the issued and outstanding shares of Class A Common Stock then entitled to vote thereon, voting as a separate class, unless (i) the holders of Class A Common Stock and Class B Common Stock, if any, at the time of such merger, consolidation or share exchange, will receive, on a per share basis, the same type and same amount of consideration in such Change in Control Transaction, and (ii) the consideration

referred to in clause (i) is of the same type and at least equal to the highest amount paid, on a per share basis, by such corporation, entity, affiliate or Group to acquire any such shares of Class B Common Stock.

(c) For the purposes of this section, a "Change in Control Transaction" means the occurrence of any of the following events, whether in a single transaction or a series of related transactions:

(i) the sale, encumbrance or disposition (other than non-exclusive licenses in the ordinary course of business and the grant of security interests in the ordinary course of business) by the Corporation of (A) all or substantially all of the Corporation's assets or (B) any direct or indirect subsidiary (1) that constitutes fifty percent (50%) or more of the consolidated assets of the Corporation and its subsidiaries, taken as a whole, based on fair market value, or (2) whose revenues constitute fifty percent (50%) or more of the consolidated revenues of the Corporation and its subsidiaries, taken as a whole; or

(ii) the merger, consolidation, combination, share exchange or other transaction involving the Corporation in which shares of Common Stock are exchanged for, converted into or otherwise changed into other stock or securities or the right to receive cash or any other property.

For purposes of this Section 3, (i) in the event the holders of any shares of Common Stock are granted rights to elect to receive one of two or more alternative forms of consideration, the requirement that such holders receive the same type and same amount of consideration shall be deemed satisfied if holders of Class A Common Stock and Class B Common Stock are granted substantially identical election rights; and (ii) any amounts payable to a Class B Stockholder in connection with a Change of Control Transaction shall be considered in determining whether all holders of Class A Common Stock and Class B Common Stock received the same type and same amount of consideration, other than payments made to Class B Stockholders who are officers or employees of the Corporation as of immediately prior to the consummation of such Change of Control Transaction if such payments (1) were approved by a majority of the disinterested directors on the Board of Directors of the Corporation and (2) (A) were made pursuant to outstanding awards granted under any stock option, restricted stock and/or similar plan of the Corporation or (B) consisted of employment compensation, severance or other employee benefit arrangement, or payments made or to be made or benefits granted or to be granted according to such an arrangement, where, in the case of this clause (B), the amount payable under the arrangement (y) is being paid or granted as compensation for past services performed, future services to be performed, or future services to be refrained from performing, by such Class B Stockholder (and matters incidental thereto) and (z) is not calculated based on the number of shares of capital stock held by such officer or employee.

Section 4. Class B Acquisition Transactions. For so long as any Class B Common Stock is issued and outstanding, the Corporation shall not consummate a merger, consolidation, combination, share exchange or other transaction involving the Corporation in which shares of Common Stock are exchanged for, converted into or otherwise changed into other stock or securities or the right to receive cash or any other property with, or sell any material assets of the Corporation or its subsidiaries to, any Class B Stockholder or any affiliate thereof or any Group which includes any Class B Stockholder (a "Class B Acquisition Transaction") unless the Class B Acquisition Transaction has been approved by, in addition to any other vote that might be required by law, these Third Amended and Restated Articles of Incorporation or the Bylaws of the Corporation, (i) a majority of the disinterested directors on the Board of Directors of the Corporation and (ii) the holders of a majority of the voting power of the issued and outstanding shares of Class A Common Stock, voting as a separate class.

Section 5. Preferred Stock. The Board of Directors is authorized, subject to any limitations prescribed by law, to provide for the issuance of shares of Preferred Stock in series, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, power, preferences, and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. Except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to these Third Amended and Restated Articles of Incorporation (including any certificate of designation filed with respect to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more

other such series, to vote thereon by law or pursuant to these Amended and Restated Articles of Incorporation (including any certificate of designation filed with respect to any series of Preferred Stock).

ARTICLE V

The Corporation is to have perpetual existence.

ARTICLE VI

Section 1. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by statute or by these Amended and Restated Articles of Incorporation or the Bylaws of the Corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

Section 2. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt, alter, amend or repeal the Bylaws of the Corporation. The affirmative vote of at least a majority of the Board of Directors then in office shall be required in order for the Board of Directors to adopt, alter, amend or repeal the Corporation's Bylaws. The Corporation's Bylaws may also be adopted, altered, amended or repealed by the stockholders of the Corporation. Notwithstanding the above or any other provision of these Third Amended and Restated Articles of Incorporation, the Bylaws of the Corporation may not be amended, altered or repealed except in accordance with Article IX of the Bylaws. No Bylaw hereafter legally adopted, altered, amended or repealed shall invalidate any prior act of the directors or officers of the Corporation that would have been valid if such Bylaw had not been adopted, amended, altered or repealed.

Section 3. Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

Section 4. The number of directors that constitute the whole Board of Directors shall be fixed exclusively in the manner designated in the Bylaws of the Corporation.

Section 5. There shall be no cumulative voting for directors of the Corporation. Directors shall be elected by a majority of the voting power of the shares of capital stock present in person or represented by proxy at an annual meeting of shareholders and entitled to vote on the election of directors.

ARTICLE VII

Section 1. To the fullest extent permitted by the Montana Business Corporation Act as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the Montana Business Corporation Act is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated to the fullest extent permitted by the Montana Business Corporation Act, as so amended.

Section 2. The Corporation shall indemnify to the fullest extent permitted by Montana law any officer or director made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, or she is or was a director, officer, employee or agent at the request of the Corporation or any predecessor to the Corporation or serves or served at any other enterprise as a director, officer, employee or agent at the request of the Corporation or any predecessor to the Corporation.

Section 3. Neither any amendment or repeal of any Section of this Article VII, nor the adoption of any provision of these Third Amended and Restated Articles of Incorporation inconsistent with this Article VII, shall eliminate or reduce the effect of this Article VII, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article VII, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE VIII

Meetings of stockholders may be held within or without the State of Montana, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the Montana Business Corporation Act) outside of the State of Montana at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

ARTICLE IX

Section 1. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV hereof in relation to the rights of the holders of Preferred Stock to elect directors under specified circumstances, newly created directorships resulting from any increase in the number of directors, created in accordance with the Bylaws of the Corporation, and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, or by a sole remaining director. Any director elected in accordance with the preceding sentence shall hold office until the next annual meeting of stockholders and until such director's successor shall have been elected and qualified, or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 2. Any director or the entire Board of Directors may be removed from office at any time, with or without cause, by the affirmative vote of the holders of at least a majority of the voting power of the issued and outstanding shares of capital stock of the Corporation then entitled to vote in the election of directors.

ARTICLE X

Section 1. Unless otherwise required by law, special meetings of the stockholders of the Corporation, for any purpose or purposes, may be called only by (i) the Board of Directors of the Corporation, (ii) the Chairman of the Board of Directors of the Corporation, (iii) the Chief Executive Officer (or, in the absence of a Chief Executive Officer, the President) of the Corporation, or (iv) a holder, or group of holders, of Common Stock holding more than ten percent (10%) of the total voting power of the outstanding shares of capital stock of the Corporation then entitled to vote.

Section 2. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

ARTICLE XI

The Corporation reserves the right to amend or repeal any provision contained in these Third Amended and Restated Articles of Incorporation in the manner prescribed by the laws of the State of Montana and all rights conferred upon stockholders are granted subject to this reservation; provided, however, that notwithstanding any other provision of these Third Amended and Restated Articles of Incorporation, or any provision of law that might otherwise permit a lesser vote or no vote, but in addition to any vote of the holders of any class or series of the stock of the Corporation, and, as applicable, such other approvals of the Board of Directors of the Corporation as are required by law or by these Third Amended and Restated Articles of Incorporation, if there are any shares of Class B Common Stock issued and outstanding, then the affirmative vote of the holders of at least seventy percent (70%) of the voting power of the shares of Class A Common Stock then entitled to vote thereon, voting as a separate class, shall be required to amend, alter or repeal, or for the Corporation to take any action, whether by amendment, merger or otherwise, that would have the effect of amending, altering or repealing any provision contained in Section 2, Section 3 or Section 4 of Article IV or this Article XI.

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Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Kevin P. Riley, certify that :

1. I have reviewed this quarterly report on Form 10-Q of First Interstate BancSystem, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions);
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

DATE: November 6, 2019

/s/ KEVIN P. RILEY
Kevin P. Riley
President and Chief Executive Officer

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Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Marcy D. Mutch, certify that :

1. I have reviewed this quarterly report on Form 10-Q of First Interstate BancSystem, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions);
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: November 6, 2019

/s/ MARCY D. MUTCH
Marcy D. Mutch
Executive Vice President and Chief Financial Officer

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Section 5: EX-32 (EXHIBIT 32)

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned are the Chief Executive Officer and the Chief Financial Officer of First Interstate BancSystem, Inc. (the "Registrant"). This Certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This Certification accompanies the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2019.

We certify that, based on our knowledge, such Quarterly Report on Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the

Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

This Certification is executed as of November 6, 2019.

/s/ KEVIN P. RILEY
Kevin P. Riley
President and Chief Executive Officer

/s/ MARCY D. MUTCH
Marcy D. Mutch
Executive Vice President and Chief Financial Officer

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