FIRST INTERSTATE BANCSYSTEM INC
Form 10-Q
August 07, 2018

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

FORM 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018
OR
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
COMMISSION FILE NUMBER 001-34653

FIRST INTERSTATE BANCSYSTEM, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨

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

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

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

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

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

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

June 30, 2018 – Class A common stock	34,200,792
June 30, 2018 – Class B common stock	22,559,402

Quarterly Report on Form 10-Q

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
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June 30, 2018

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

	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$228.3	$ 196.5
Interest bearing deposits in banks	481.3	562.3
Federal funds sold	2.4	0.1
Total cash and cash equivalents	712.0	758.9
Investment securities:		
Available-for-sale	2,178.0	2,208.7
Held-to-maturity (estimated fair values of $432.8 and $483.3 at June 30, 2018 and December 31, 2017, respectively)	440.9	484.5
Total investment securities	2,618.9	2,693.2
Loans held for investment	7,708.4	7,567.7
Mortgage loans held for sale	50.3	46.6
Total loans	7,758.7	7,614.3
Less allowance for loan losses	74.1	72.1
Net loans	7,684.6	7,542.2
Goodwill	445.6	444.7
Company-owned life insurance	262.7	260.6
Premises and equipment, net of accumulated depreciation	233.7	241.9
Accrued interest receivable	39.3	38.0
Mortgage servicing rights, net of accumulated amortization and impairment reserve	26.0	24.8
Core deposit intangibles, net of accumulated amortization	45.6	49.1
Other real estate owned ("OREO")	14.9	10.1
Deferred tax asset, net	—	4.0
Other assets	152.4	145.8
Total assets	$12,235.7	$ 12,213.3
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$2,884.2	$ 2,900.0
Interest bearing	7,061.3	7,034.9
Total deposits	9,945.5	9,934.9
Securities sold under repurchase agreements	641.8	643.0
Accounts payable and accrued expenses	85.4	86.6
Accrued interest payable	6.3	5.6
Deferred tax liability, net	0.2	—
Long-term debt	15.7	13.1
Other borrowed funds	—	20.0
Subordinated debentures held by subsidiary trusts	82.5	82.5
Total liabilities	10,777.4	10,785.7
Stockholders' equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued and outstanding as of June 30, 2018 or December 31, 2017	—	—

Common stock	690.7	687.0
Retained earnings	802.6	752.6
Accumulated other comprehensive loss, net	(35.0)	(12.0)
Total stockholders’ equity	1,458.3	1,427.6
Total liabilities and stockholders’ equity	$12,235.7	$ 12,213.3

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income:				
Interest and fees on loans	$96.5	$ 73.9	$188.2	$ 137.6
Interest and dividends on investment securities:				
Taxable	13.9	9.8	27.1	18.5
Exempt from federal taxes	0.6	0.9	1.2	1.7
Interest on deposits in banks	2.0	1.3	4.1	2.5
Total interest income	113.0	85.9	220.6	160.3
Interest expense:				
Interest on deposits	7.2	5.0	13.4	9.1
Interest on securities sold under repurchase agreements	0.7	0.3	1.1	0.5
Interest on other borrowed funds	—	—	0.1	—
Interest on other debt	0.3	0.5	0.5	1.0
Interest on subordinated debentures held by subsidiary trusts	1.0	0.8	1.9	1.5
Total interest expense	9.2	6.6	17.0	12.1
Net interest income	103.8	79.3	203.6	148.2
Provision for loan losses	2.9	2.4	5.0	4.1
Net interest income after provision for loan losses	100.9	76.9	198.6	144.1
Non-interest income:				
Payment services revenues	12.9	10.2	23.4	18.6
Mortgage banking revenues	7.2	7.6	12.6	14.1
Wealth management revenues	5.8	5.1	11.7	10.1
Service charges on deposit accounts	5.3	5.1	10.9	9.5
Other service charges, commissions and fees	3.8	3.4	7.7	6.1
Investment securities gains (losses), net	—	—	—	—
Other income	2.6	5.8	6.5	7.9
Total non-interest income	37.6	37.2	72.8	66.3
Non-interest expense:				
Salaries and wages	34.3	28.0	68.9	53.7
Employee benefits	12.3	9.8	23.6	19.4
Outsourced technology services	7.1	6.0	14.1	11.3
Occupancy, net	6.0	5.2	12.3	10.0
Furniture and equipment	2.9	2.8	6.0	5.1
OREO expense, net of income	(0.1)	—	0.1	—
Professional fees	2.1	1.8	3.3	2.8
FDIC insurance premiums	1.4	0.8	2.9	1.7
Mortgage servicing rights amortization	0.7	0.7	1.5	1.3
Mortgage servicing rights recovery	—	—	—	(0.1)
Core deposit intangibles amortization	1.7	1.1	3.5	1.7
Other expenses	16.5	14.1	32.3	26.4
Acquisition related expenses	—	10.1	2.3	10.8
Total non-interest expense	84.9	80.4	170.8	144.1

Income before income tax expense	53.6	33.7	100.6	66.3
Income tax expense	11.9	11.9	22.2	21.3
Net income	$41.7	$ 21.8	$78.4	$ 45.0
Earnings per common share (Basic)	$0.74	$ 0.46	$1.39	$ 0.97
Earnings per common share (Diluted)	$0.74	$ 0.45	$1.38	$ 0.96
Weighted average common shares outstanding (Basic)	56,335,186	47,612,971	56,288,453	46,170,500
Weighted average common shares outstanding (Diluted)	56,699,021	48,074,451	56,670,406	46,681,375

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$41.7	$21.8	$78.4	$45.0
Other comprehensive income, before tax:				
Investment securities available-for sale:				
Change in net unrealized (losses) gains during period	(3.8)	8.0	(27.6)	17.4
Change in unamortized loss on available-for-sale securities transferred into held-to-maturity	0.5	0.5	1.0	0.9
Unrealized loss (gain) on derivatives	—	(0.5)	—	(0.5)
Defined benefit post-retirement benefits plans:				
Change in net actuarial gain	(0.2)	(0.2)	(0.3)	(0.9)
Other comprehensive income (loss), before tax	(3.5)	7.8	(26.9)	16.9
Deferred tax benefit (expense) related to other comprehensive income	0.9	(3.2)	7.0	(6.8)
Other comprehensive (loss) income, net of tax	(2.6)	4.6	(19.9)	10.1
Comprehensive income, net of tax	$39.1	$26.4	$58.5	$55.1

See accompanying notes to unaudited consolidated financial statements.

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

	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2017	$ 687.0	$ 752.6	$ (12.0)	$ 1,427.6
Net income	—	78.4	—	78.4
Reclassification of the income tax effects of the Tax Cut and Jobs Act from AOCI	—	3.1	(3.1)	—
Other comprehensive income, net of tax expense	—	—	(19.9)	(19.9)
Common stock transactions:				
22,596 common shares purchased and retired	(0.9)	—	—	(0.9)
11,389 common shares issued	—	—	—	—
204,991 non-vested common shares issued	—	—	—	—
27,147 non-vested common shares forfeited	—	—	—	—
127,998 stock options exercised, net of 24,729 shares tendered in payment of option price and income tax withholding amounts	1.7	—	—	1.7
Stock-based compensation expense	2.9	—	—	2.9
Common cash dividends declared (0.56 per share)	—	(31.5)	—	(31.5)
Balance at June 30, 2018	$ 690.7	$ 802.6	$ (35.0)	$ 1,458.3
Balance at December 31, 2016	$ 296.1	$ 694.6	$ (8.1)	$ 982.6
Net income	—	45.0	—	45.0
Other comprehensive income, net of tax expense	—	—	10.1	10.1
Common stock transactions:				
21,454 common shares purchased and retired	(0.9)	—	—	(0.9)
11,267,676 common shares issued	386.0	—	—	386.0
134,044 non-vested common shares issued	—	—	—	—
16,712 non-vested common shares forfeited	—	—	—	—
155,537 stock options exercised, net of 50,689 shares tendered in payment of option price and income tax withholding amounts	1.7	—	—	1.7
Stock-based compensation expense	2.4	—	—	2.4
Common cash dividends declared (0.48 per share)	—	(21.5)	—	(21.5)
Balance at June 30, 2017	$ 685.3	$ 718.1	$ 2.0	$ 1,405.4

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$78.4	$45.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5.0	4.1
Net loss on disposal of premises and equipment	—	0.1
Depreciation and amortization	13.1	9.7
Net premium amortization on investment securities	5.5	5.7
Realized and unrealized net gains on mortgage banking activities	(3.0)	(9.9)
Net gain on sale of OREO	(0.4)	(0.2)
Write-downs of OREO and other assets pending disposal	—	0.1
Net (gain) on sale of Health Savings Accounts	—	(3.4)
Mortgage servicing rights recovery	—	(0.1)
Deferred tax expenses	9.3	(15.8)
Net increase in cash surrender value of company-owned life insurance	(2.1)	(2.6)
Stock-based compensation expense	2.9	2.4
Originations of mortgage loans held for sale	(382.5)	(428.3)
Proceeds from sales of mortgage loans held for sale	379.1	478.2
Changes in operating assets and liabilities, net of effects of acquisition:		
Increase in interest receivable	(1.3)	(6.0)
(Increase) decrease in other assets	(5.8)	26.2
Increase in accrued interest payable	0.7	3.5
Decrease in accounts payable and accrued expenses	(1.2)	(20.2)
Net cash provided by operating activities	97.7	88.5
Cash flows from investing activities:		
Purchases of investment securities:		
Held-to-maturity	—	(2.9)
Available-for-sale	(230.2)	(201.8)
Proceeds from maturities and pay-downs of investment securities:		
Held-to-maturity	43.7	43.5
Available-for-sale	228.8	170.2
Extensions of credit to customers, net of repayments	(158.5)	(38.5)
Recoveries of loans charged-off	7.2	3.6
Proceeds from sale of OREO	3.0	1.7
Acquisition of intangible assets	—	(28.0)
Proceeds from the sale of Health Savings Accounts	—	6.5
Acquisition of bank and bank holding company, net of cash and cash equivalents received	—	91.8
Capital expenditures, net of sales	0.1	(7.5)
Net cash provided by (used in) investing activities	$(105.9)	$38.6

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

	Six Months Ended June 30,	
	2018	2017
Cash flows from financing activities:		
Net increase (decrease) in deposits	$10.6	$(25.1)
Net (decrease) increase in securities sold under repurchase agreements	(1.2)	42.2
Net decrease in other borrowed funds	(20.0)	15.0
Advances on long-term debt	2.6	0.1
Proceeds from issuance of common stock	1.7	0.9
Purchase and retirement of common stock	(0.9)	(0.9)
Dividends paid to common stockholders	(31.5)	(21.5)
Net cash provided by (used in) financing activities	(38.7)	10.7
Net increases (decrease) in cash and cash equivalents	(46.9)	137.8
Cash and cash equivalents at beginning of period	758.9	782.0
Cash and cash equivalents at end of period	$712.0	$919.8
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$9.7	$14.4
Cash paid during the period for interest expense	16.4	8.6
Supplemental disclosures of noncash investing and financing activities:		
Transfer of loans to loans held for sale	$0.9	$5.8
Transfer of loans to other real estate owned	7.4	1.6
Capitalization of internally originated mortgage servicing rights	2.7	2.7
Supplemental schedule of noncash investing activities from acquisitions:		
Investment securities available for sale	$—	$424.3
Investment securities held to maturity	—	57.3
Loans held for sale	—	10.3
Loans	—	2,080.0
Lease investments	—	—
Premises and equipment	—	47.9
Goodwill	—	231.5
Core deposit intangible	—	48.0
Mortgage servicing rights	—	3.5
Interest receivable	—	—
Company-owned life insurance	—	—
Deferred tax assets	—	—
Other real estate owned	—	1.2
Other assets	—	121.7
Total noncash assets acquired	—	3,025.7
Liabilities assumed:		
Deposits	$—	$2,669.0

Accounts payable and accrued expenses	—	62.6
Total liabilities assumed	—	2,731.6

See accompanying notes to unaudited consolidated financial statements.

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

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements of First Interstate BancSystem, Inc. and subsidiaries (the “Company”) contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the financial position of the Company at June 30, 2018 and December 31, 2017, the results of operations for each of the three and six month periods ended June 30, 2018 and 2017, and cash flows and changes in stockholders' equity for each of the six month periods ended June 30, 2018 and 2017, in conformity with U.S. generally accepted accounting principles. The balance sheet information at December 31, 2017 is derived from audited consolidated financial statements. Certain reclassifications, none of which were material, have been made to conform prior year financial statements to the June 30, 2018 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, 2017. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Revenue Recognition

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

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

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

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

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

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

(2) Acquisitions

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., the parent company of Inland Northwest Bank ("INB"), a Spokane, Washington based community bank with 20 banking offices across Idaho, Oregon and Washington in an all-stock transaction valued at approximately $159.7 million in aggregate, or $20.69 per share of INB stock. The Company believes the transaction, if completed on the terms contemplated, will complement First Interstate's footprint and will provide First Interstate with a presence in several high-growth markets, including Spokane, Washington, Portland, Oregon and Coeur d'Alene, Idaho. The transaction has been approved by the boards of directors of both companies and is expected to close in the third quarter with the conversion and integration of INB occurring in the fourth quarter of 2018, subject to customary conditions including, regulatory approval, and INB shareholder approval.

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

All "in-the-money" Cascade options and all Cascade restricted stock units outstanding immediately prior to the transaction close were canceled in exchange for the right to receive a cash payment as provided in the Agreement. The Company paid approximately $9.3 million in cash related to Cascade options and restricted stock units, which was included in the consideration paid.

Unvested Cascade restricted stock awards outstanding immediately prior to the transaction close were canceled in exchange for the right to receive a cash payment and Company shares as provided in the Agreement. The Company paid a total of approximately $2.2 million in cash and issued approximately 168 thousand Company shares, valued at $34.30 per share, related to Cascade unvested restricted stock awards. Of the cash paid and shares issued related to Cascade unvested restricted stock awards, approximately $2.4 million was allocated to expense and excluded from consideration paid due to the acceleration of award vesting at the Company's discretion. The remaining balance of approximately $5.5 million related to unvested Cascade restricted stock awards is included in the consideration paid.

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

The assets and liabilities of Cascade were recorded in the Company's consolidated financial statements at their estimated fair values as of the acquisition date. The excess value of the consideration paid over the fair value of assets acquired and liabilities assumed is recorded as goodwill. The purchase price allocation resulted in goodwill of $232.8 million, which is not deductible for income tax purposes. Goodwill resulting from the acquisition was allocated to the Company's one operating segment, community banking, and consists largely of the synergies and economies of scale expected from combining the operations of Cascade and the Company.

The following table summarizes the consideration paid, fair values of the Cascade assets acquired and liabilities assumed, and the resulting goodwill. All amounts were finalized in the first quarter of 2018.

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

Explanation of fair value adjustments:

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

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

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

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

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

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

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

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

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

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

The Company recorded no pre-tax acquisition related expenses for the three months ended June 30, 2018 and $2.3 million in pre-tax acquisition related expenses for the six months ended June 30, 2018. These costs are incorporated in non-interest expenses in the Company's consolidated statements of income.

The Company acquired certain loans that are subject to Accounting Standards Codification ("ASC") Topic 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality." ASC Topic 310-30 provides recognition, measurement and disclosure guidance for acquired loans that have evidence of deterioration in credit quality since origination for which 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.

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

Information regarding loans acquired credit-impaired as of the May 30, 2017 acquisition date is as follows:

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

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

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

The accompanying consolidated statements of income for the six months ended June 30, 2018, include the results of operations of the acquired entity from the May 30, 2017 acquisition date. For the period from May 30, 2017 to June 30, 2017, Cascade reported revenues of $12.9 million and net income of $3.0 million. The acquired entities continued to operate as Bank of the Cascades until August 11, 2017 at which point Cascade's operations were integrated with the Company's operations, and Bank of the Cascades was merged with First Interstate Bank. Standalone amounts for the Bank of the Cascades were no longer available after that date.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income	$113.0	$103.3	$220.6	$203.3
Non-interest income	37.7	41.3	72.9	77.9
Total revenues	$150.7	$144.6	$293.5	$281.2
Net income	$41.7	$29.4	$79.9	$58.7
EPS - basic	$0.74	$0.50	$1.42	$1.02
EPS - diluted	0.74	0.50	1.41	1.01

The unaudited pro forma net income presented in the table above for 2017 was adjusted to exclude acquisition-related costs, including change in control expenses related to employee benefit plans and legal and professional expenses of $10.7 million and $11.2 million, net of tax, for the three and six month periods ended. The unaudited pro forma net income presented in the table above for 2018 and 2017 includes adjustments for scheduled amortization of core deposit intangible assets acquired in the acquisition. The unaudited supplemental pro forma net income presented in the table above for 2017 does not capture operating cost savings and other business synergies expected as a result of the acquisition.

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(3) Goodwill and Core Deposit Intangibles

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

Goodwill

	As of June 30,	
	2018	2017
Net carrying value at beginning of period	$444.7	$212.8
Addition to provisional goodwill from acquisition	—	231.5
Measurement period adjustment to previously recorded goodwill	0.9	—
Net carrying value at end of period	$445.6	$444.3

Core deposit intangibles (“CDI”)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
CDI, net, beginning of period	$47.3	$9.0	$49.1	$9.6
Established through acquisitions or provisional adjustments	—	48.0	—	48.0
Reductions due to sale of accounts	—	(3.1)	—	(3.1)
CDI current period amortization	(1.7)	(1.1)	(3.5)	(1.7)
Total CDI, net, end of period	$45.6	$52.8	$45.6	$52.8

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

The following table provides the estimated future CDI amortization expense:

Years Ending December 31,	
2018 remaining	$3.4
2019	6.6
2020	6.2
2021	5.8
2022	5.3
Thereafter	18.3
Total	$45.6

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(4) Investment Securities

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

June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
U.S. Treasury notes	$ 1.9	$ —	$ —	$ 1.9
Obligations of U.S. government agencies	557.0	—	(13.8)	543.2
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	1,491.7	1.6	(33.4)	1,459.9
Private mortgage-backed securities	80.1	—	(1.7)	78.4
Corporate securities	93.0	0.1	(1.0)	92.1
Other investments	2.5	—	—	2.5
Total	$ 2,226.2	$ 1.7	$ (49.9)	$ 2,178.0

June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity:				
State, county and municipal securities	$ 162.1	$ 1.6	$ (1.3)	$ 162.4
Obligations of U.S. government agencies	19.7	—	(0.3)	19.4
U.S agency residential mortgage-backed securities & collateralized mortgage obligations	207.6	7.7	(15.2)	200.1
Corporate securities	51.4	0.1	(0.7)	50.8
Other investments	0.1	—	—	0.1
Total	$ 440.9	$ 9.4	$ (17.5)	$ 432.8

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

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

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

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There were no material gross realized gains and losses from the disposition of available-for-sale investment securities for the three and six months ended June 30, 2018 and 2017.

The following tables show the gross unrealized losses and fair values of investment securities, aggregated by investment category, and the length of time individual investment securities have been in a continuous unrealized loss position, as of June 30, 2018 and December 31, 2017:

	Less than 12 Months		12 Months or More		Total	
June 30, 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	$266.1	$ (6.5)	$272.1	$ (7.3)	$538.2	$ (13.8)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	905.5	(17.8)	415.7	(15.6)	1,321.2	(33.4)
Private mortgage-backed securities	54.0	(1.1)	24.4	(0.6)	78.4	(1.7)
Corporate securities	40.6	(1.0)	—	—	40.6	(1.0)
Total	$1,266.2	$ (26.4)	$712.2	$ (23.5)	$1,978.4	$ (49.9)

	Less than 12 Months		12 Months or More		Total	
June 30, 2018	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity:						
State, county and municipal securities	$64.1	$ (0.9)	$17.3	$ (0.4)	$81.4	$ (1.3)
Obligations of U.S. government agencies	9.6	(0.1)	9.8	(0.2)	19.4	(0.3)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	86.1	(11.8)	44.8	(3.4)	130.9	(15.2)