

**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 June 30, 2020

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

(State or other jurisdiction of
incorporation or organization)

81-0331430

(IRS Employer
Identification No.)

401 North 31st Street

Billings, MT

(Address of principal executive offices)

59116-0918

(Zip Code)

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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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:

June 30, 2020 – Class A common stock	42,579,590
June 30, 2020 – Class B common stock	21,981,114

Quarterly Report on Form 10-Q

FIRST INTERSTATE BANCYSYSTEM, INC. AND SUBSIDIARIES

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June 30, 2020

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

(Unaudited)

	June 30, 2020	December 31, 2019
Assets		
Cash and due from banks	\$ 291.2	\$ 241.5
Interest bearing deposits in banks	1,133.7	835.2
Federal funds sold	0.1	0.1
Total cash and cash equivalents	1,425.0	1,076.8
Investment securities:		
Available-for-sale	3,317.6	2,960.0
Held-to-maturity, net (estimated fair values of \$71.1 and \$94.5 at June 30, 2020 and December 31, 2019, respectively)	67.9	92.3
Total investment securities	3,385.5	3,052.3
Mortgage loans held for sale, at fair value	169.9	100.9
Loans held for investment, net of deferred fees and costs	10,032.5	8,930.7
Allowance for credit losses	146.1	73.0
Net loans held for investment	9,886.4	8,857.7
Goodwill	621.6	621.6
Company-owned life insurance	293.1	293.8
Premises and equipment, net of accumulated depreciation	309.5	306.0
Core deposit intangibles, net of accumulated amortization	56.5	62.1
Accrued interest receivable	56.5	46.7
Mortgage servicing rights, net of accumulated amortization and impairment reserve	24.6	30.2
Other real estate owned ("OREO")	6.5	8.5
Other assets	236.3	187.6
Total assets	\$ 16,471.4	\$ 14,644.2
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	\$ 4,426.6	\$ 3,426.5
Interest bearing	8,913.8	8,237.0
Total deposits	13,340.4	11,663.5
Securities sold under repurchase agreements	756.1	697.6
Accounts payable and accrued expenses	133.5	129.6
Accrued interest payable	8.8	12.1
Deferred tax liability, net	32.2	26.7
Long-term debt	112.3	13.9
Allowance for credit losses on off-balance sheet credit exposures	2.3	—
Subordinated debentures held by subsidiary trusts	86.9	86.9
Total liabilities	14,472.5	12,630.3
Stockholders' equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued and outstanding as of June 30, 2020 or December 31, 2019	—	—
Common stock	1,021.2	1,049.3
Retained earnings	912.5	953.6
Accumulated other comprehensive gain, net	65.2	11.0
Total stockholders' equity	1,998.9	2,013.9
Total liabilities and stockholders' equity	\$ 16,471.4	\$ 14,644.2

See accompanying notes to unaudited consolidated financial statements.

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,	
	2020	2019	2020	2019
Interest income:				
Interest and fees on loans	\$ 112.1	\$ 120.9	\$ 224.1	\$ 232.3
Interest and dividends on investment securities:				
Taxable	15.7	15.7	32.9	30.8
Exempt from federal taxes	0.5	0.5	1.0	1.0
Interest on deposits in banks	0.5	5.0	3.0	8.6
Total interest income	128.8	142.1	261.0	272.7
Interest expense:				
Interest on deposits	4.5	14.1	11.8	26.2
Interest on securities sold under repurchase agreements	0.1	1.1	0.6	2.1
Interest on other debt	1.0	0.4	1.3	0.7
Interest on subordinated debentures held by subsidiary trusts	0.7	1.2	1.7	2.4
Total interest expense	6.3	16.8	15.4	31.4
Net interest income	122.5	125.3	245.6	241.3
Provision for credit losses	19.5	3.8	48.5	7.5
Net interest income after provision for credit losses	103.0	121.5	197.1	233.8
Non-interest income:				
Payment services revenues	9.3	10.5	19.5	19.9
Mortgage banking revenues	14.2	9.0	25.1	14.2
Wealth management revenues	5.4	5.8	11.6	11.9
Service charges on deposit accounts	3.6	5.4	9.0	10.4
Other service charges, commissions and fees	2.9	1.8	5.0	3.5
Investment securities gains (losses), net	—	—	—	—
Other income	4.3	5.1	7.9	9.4
Total non-interest income	39.7	37.6	78.1	69.3
Non-interest expense:				
Salaries and wages	44.2	40.1	84.1	75.2
Employee benefits	10.4	14.0	24.6	28.4
Outsourced technology services	8.3	8.1	16.1	16.0
Occupancy, net	6.8	7.1	14.1	14.1
Furniture and equipment	4.2	3.4	7.0	6.9
OREO expense, net of income	0.1	0.2	(0.4)	0.3
Professional fees	3.0	2.6	5.7	5.8
FDIC insurance premiums	1.6	1.6	3.2	3.1
Core deposit intangibles amortization	2.7	3.0	5.6	5.3
Other expenses	14.3	16.7	30.6	30.4
Acquisition related expenses	—	13.5	—	15.8
Total non-interest expense	95.6	110.3	190.6	201.3
Income before income tax expense	47.1	48.8	84.6	101.8
Income tax expense	10.4	10.9	18.6	22.3
Net income	\$ 36.7	\$ 37.9	\$ 66.0	\$ 79.5
Earnings per common share (Basic)	\$ 0.57	\$ 0.59	\$ 1.02	\$ 1.27
Earnings per common share (Diluted)	\$ 0.57	\$ 0.59	\$ 1.02	\$ 1.27
Weighted average common shares outstanding (Basic)	64,004,455	64,504,546	64,397,320	62,419,442
Weighted average common shares outstanding (Diluted)	64,082,489	64,707,459	64,513,886	62,668,391

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	\$ 36.7	\$ 37.9	\$ 66.0	\$ 79.5
Other comprehensive income, before tax:				
Investment securities available-for sale:				
Change in net unrealized gains during period	34.9	20.2	74.1	53.8
Reclassification adjustment for securities transferred from held-to-maturity to available-for-sale	—	—	—	(6.0)
Unrealized loss on derivatives	0.2	—	0.2	—
Defined benefit post-retirement benefits plans:				
Change in net actuarial loss	(0.2)	(0.2)	(0.4)	(0.3)
Other comprehensive income, before tax	34.9	20.0	73.9	47.5
Deferred tax expense related to other comprehensive income	(9.5)	(5.1)	(19.7)	(12.4)
Other comprehensive income, net of tax	25.4	14.9	54.2	35.1
Comprehensive income, net of tax	\$ 62.1	\$ 52.8	\$ 120.2	\$ 114.6

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 June 30,			
	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at March 31, 2020	\$ 1,018.7	\$ 897.6	\$ 39.8	\$ 1,956.1
Net income	—	36.7	—	36.7
Other comprehensive income, net of tax expense	—	—	25.4	25.4
Common stock transactions:				
482 common shares purchased and retired	—	—	—	—
19,200 common shares issued	—	—	—	—
733 non-vested common shares issued	—	—	—	—
23,018 non-vested common shares forfeited or canceled	—	—	—	—
10,917 stock options exercised, net of 2,949 shares tendered in payment of option price and income tax withholding amounts	0.1	—	—	0.1
Stock-based compensation expense	2.4	—	—	2.4
Common cash dividends declared (\$0.34 per share)	—	(21.8)	—	(21.8)
Balance at June 30, 2020	\$ 1,021.2	\$ 912.5	\$ 65.2	\$ 1,998.9
Balance at March 31, 2019	\$ 866.6	\$ 874.7	\$ (4.4)	\$ 1,736.9
Net income	—	37.9	—	37.9
Other comprehensive income, net of tax expense	—	—	14.9	14.9
Common stock transactions:				
607 common shares purchased and retired	(0.1)	—	—	(0.1)
4,356,498 common shares issued	176.1	—	—	176.1
11,136 non-vested common shares issued	—	—	—	—
16,032 non-vested common shares forfeited or canceled	—	—	—	—
41,704 stock options exercised, net of 16,104 shares tendered in payment of option price and income tax withholding amounts	0.3	—	—	0.3
Stock-based compensation expense	2.7	—	—	2.7
Common cash dividends declared (\$0.31 per share)	—	(20.1)	—	(20.1)
Balance at June 30, 2019	\$ 1,045.6	\$ 892.5	\$ 10.5	\$ 1,948.6

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (continued)

(In millions, except share and per share data)

(Unaudited)

	Six Months Ended June 30,			
	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2019	\$ 1,049.3	\$ 953.6	\$ 11.0	\$ 2,013.9
Cumulative change related to the adoption of ASU 2016-13	—	(24.1)	—	(24.1)
Adjusted balance at January 1, 2020	1,049.3	929.5	11.0	1,989.8
Net income	—	66.0	—	66.0
Other comprehensive income, net of tax expense	—	—	54.2	54.2
Common stock transactions:				
1,093,741 common shares purchased and retired	(32.6)	—	—	(32.6)
19,491 common shares issued	—	—	—	—
328,100 non-vested common shares issued	—	—	—	—
25,588 non-vested common shares forfeited or canceled	—	—	—	—
84,268 stock options exercised, net of 26,124 shares tendered in payment of option price and income tax withholding amounts	0.7	—	—	0.7
Stock-based compensation expense	3.8	—	—	3.8
Common cash dividends declared (\$1.28 per share)	—	(83.0)	—	(83.0)
Balance at June 30, 2020	\$ 1,021.2	\$ 912.5	\$ 65.2	\$ 1,998.9
Balance at December 31, 2018	\$ 866.7	\$ 851.8	\$ (24.6)	\$ 1,693.9
Net income	—	79.5	—	79.5
Other comprehensive income, net of tax expense	—	—	35.1	35.1
Common stock transactions:				
39,360 common shares purchased and retired	(2.5)	—	—	(2.5)
4,356,498 common shares issued	176.1	—	—	176.1
211,164 non-vested common shares issued	—	—	—	—
21,417 non-vested common shares forfeited or canceled	—	—	—	—
98,686 stock options exercised, net of 35,108 shares tendered in payment of option price and income tax withholding amounts	0.7	—	—	0.7
Stock-based compensation expense	4.6	—	—	4.6
Common cash dividends declared (\$0.62 per share)	—	(38.8)	—	(38.8)
Balance at June 30, 2019	\$ 1,045.6	\$ 892.5	\$ 10.5	\$ 1,948.6

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,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 66.0	\$ 79.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	48.5	7.5
Net gain on disposal of premises and equipment	(0.1)	—
Depreciation and amortization	21.2	19.3
Net premium amortization on investment securities	5.7	4.2
Realized and unrealized net gains on mortgage banking activities	(24.9)	(11.9)
Net gain on sale of investments in unrelated entities	(1.0)	—
Net gain on sale of OREO	(0.5)	(0.5)
Write-downs of OREO and other assets pending disposal	—	0.4
Mortgage servicing rights impairment	8.4	—
Deferred taxes	(5.8)	2.7
Net decrease (increase) in cash surrender value of company-owned life insurance	0.7	(1.4)
Stock-based compensation expense	3.8	4.6
Originations of mortgage loans held for sale	(757.3)	(474.4)
Proceeds from sales of mortgage loans held for sale	706.7	453.2
Changes in operating assets and liabilities, net of effects of acquisition:		
Increase in interest receivable	(9.8)	(3.1)
Increase in other assets	(49.6)	(15.9)
Decrease in accrued interest payable	(3.3)	(13.5)
Increase (decrease) in accounts payable and accrued expenses	0.5	(2.6)
Net cash provided by operating activities	9.2	48.1
Cash flows from investing activities:		
Purchases of investment securities:		
Available-for-sale	(1,029.0)	(294.6)
Proceeds from maturities and pay-downs of investment securities:		
Held-to-maturity	24.3	29.4
Available-for-sale	739.9	356.5
Extensions of credit to clients, net of repayments	(1,111.8)	(133.1)
Recoveries of loans charged-off	3.3	5.3
Proceeds from sale of OREO	3.7	2.6
Proceeds from the sale of Health Savings Accounts	—	0.3
Proceeds from sale of investments in unrelated entities	2.2	—
Acquisition of bank and bank holding company, net of cash and cash equivalents received	—	298.4
Capital expenditures, net of sales	(12.5)	(7.7)
Net cash (used in) provided by investing activities	\$ (1,379.9)	\$ 257.1
Cash flows from financing activities:		
Net increase in deposits	\$ 1,676.9	\$ 102.5
Net increase (decrease) in securities sold under repurchase agreements	58.5	(56.1)
Net decrease in other borrowed funds	—	(4.1)
Repayments of long-term debt	(0.1)	(0.1)
Advances on long-term debt	98.5	0.1
Proceeds from issuance of common stock	0.7	0.7
Purchase and retirement of common stock	(32.6)	(2.5)
Dividends paid to common stockholders	(83.0)	(38.8)
Net cash provided by financing activities	1,718.9	1.7

Net increase in cash and cash equivalents		348.2		306.9
Cash and cash equivalents at beginning of period		1,076.8		822.0
Cash and cash equivalents at end of period	\$	1,425.0	\$	1,128.9

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

	Six Months Ended June 30,	
	2020	2019
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$ 24.5	\$ 24.5
Cash paid during the period for interest expense	18.7	26.8
Supplemental disclosures of non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	3.3	54.6
Transfer of loans to other real estate owned	1.2	13.3
Capitalization of internally originated mortgage servicing rights	6.3	2.8
Supplemental schedule of noncash investing activities from acquisitions:		
Investment securities available for sale	\$ —	\$ 78.7
Loans held for sale	—	0.5
Loans held for investment	—	416.6
Premises and equipment	—	22.5
Goodwill	—	77.2
Core deposit intangible	—	16.6
Company-owned life insurance	—	15.2
Interest receivable	—	2.2
Other real estate owned	—	2.4
Other assets	—	6.5
Total noncash assets acquired	—	638.4
Liabilities assumed:		
Deposits	\$ —	\$ 706.7
Securities sold under repurchase agreements	—	30.4
Accounts payable and accrued expenses	—	19.4
Long-term debt	—	4.1
Deferred tax liability	—	0.1
Total liabilities assumed	—	760.7

See accompanying notes to unaudited consolidated financial statements.

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., 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 June 30, 2020 and December 31, 2019, the results of operations and changes in stockholders’ equity for each of the three and six month periods ended June 30, 2020 and 2019, and cash flows for each of the six month periods ended June 30, 2020 and 2019, in conformity with U.S. generally accepted accounting principles (“GAAP”). The balance sheet information at December 31, 2019 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, 2020 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, 2019. Operating results for the three and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

Current Expected Credit Losses

On January 1, 2020, the Company adopted Accounting Standards Codification (“ASC”) 326, Measurement of Credit Losses on Financial Instruments (“ASC 326”), and replaced the historically used incurred loss methodology with an expected loss methodology that is referred to as the Current Expected Credit Loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan held for investment receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities that management does not intend to sell or believes that it is more likely than not they will be required to sell. See “Note 16 - Recent Authoritative Accounting Guidance” included in this report, we adopted ASU 2016-13.

The following table summarizes the estimated allowance for credit losses related to financial assets and off-balance sheet credit exposures and the corresponding impacts on the deferred tax liability and retained earnings upon adoption of ASC 326:

	January 1, 2020		
	Pre-ASC 326 Adoption	Post-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Allowance for credit losses on HTM securities	\$ —	\$ —	\$ —
Allowance for credit losses on loans held for investment	73.0	103.0	30.0
Liabilities:			
Off-balance sheet credit exposures	—	2.3	2.3
Deferred tax liability	26.7	18.5	(8.2)
Equity:			
Retained earnings	953.6	929.5	(24.1)

Debt Security Investments

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

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

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for accretion of discounts to maturity and amortization of premiums over the estimated average life of the security, without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated, or in the case of callable securities, through the first call date, using the effective yield method. Such amortization and accretion is included in interest income. Realized gains and losses on sales are recorded on the trade date in investment securities gains and losses and determined using the specific identification method.

Accrued interest receivable on investment securities totaled \$10.3 million at June 30, 2020 and was reported in the accrued interest receivable line item on the consolidated balance sheets.

Allowance for Credit Losses - Held-to-Maturity Securities: Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Management classifies the held-to-maturity portfolio into the following major security types:

State, county and municipal securities. Municipal bonds issued by municipal governments within the U.S. These types of securities are primarily composed of general obligation bonds, or municipal bonds backed by the credit and taxing power of the issuing jurisdiction and revenue obligation bonds, or municipal bonds that are financed by income-producing projects and are secured by a specified source of revenue. Municipal issues shall have at least an "A-" rating by Moody's and/or Standard and Poor's or equivalent creditworthiness must be established prior to purchase. All non-rated or private placement securities must be analyzed and approved by the Company's Credit Department and documented prior to purchase.

Obligations of U.S. government agencies and entities. Securities held by the Company are primarily issued by The Federal Home Loan Mortgage Corporation, known as Freddie Mac, and The Federal National Mortgage Association, Fannie Mae, which are implicitly guaranteed by the U.S. government and are consistently highly rated by major rating agencies with very little risk to default.

U.S. agency residential mortgage backed securities and Collateralized Mortgage Obligations. Residential mortgage backed securities held by the Company are primarily issued by U.S. government agencies and entities. These securities are either explicitly or implicitly guaranteed by the U.S. government, are consistently highly rated by major rating agencies with very little risk to default. Collateralized mortgage obligations include agency and non-agency residential securities which currently carry ratings no lower than investment grade "BBB-" and pass the federal financial institutions examinations test (Collateral Mortgage Obligation volatility test) at the time of purchase.

Corporate securities. Securities held by the Company are primarily comprised of corporate bonds (both senior and subordinated-debt) issued by a firm or public entity which currently carry ratings no lower than investment grade "BBB-" or better by Moody's, Standard and Poor's or Kroll rating agencies. All corporate subordinated-debt securities are analyzed and approved by the Company prior to purchase.

Allowance for Credit Losses -Available-For-Sale Securities: For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Company performs a qualitative assessment as to whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is excluded from the estimate of credit losses.

Loans held for investment

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost or principal balance outstanding. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred loan fees and costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Accrued interest receivable on loans held for investment totaled \$45.7 million at June 30, 2020 and was reported in the accrued interest receivable line item on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance of underlying loans.

Interest income on mortgage and commercial loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection.

Mortgage loans are charged off at 180 days past due, and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Consumer and credit card loans continue to accrue interest until they are charged off no later than 120 days past due unless the loan is in the process of collection. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and when, in the opinion of management, the loans are estimated to be fully collectible as to both principal and interest.

Purchased Credit Deteriorated ("PCD") Loans

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. Loans that meet at least one of the following criteria are considered to have experienced more-than-insignificant credit deterioration since origination at the date of acquisition: 1) delinquent as of the acquisition date; 2) has been downgraded since origination; 3) has been placed on nonaccrual status at any point since origination; or 4) for which credit spreads have widened beyond market-level thresholds. PCD loans are recorded at the amount paid for the loan. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision expense.

Allowance for Credit Losses - Loans held for investment

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. When forecasting expected recoveries, the amounts should not exceed the aggregate of amounts that have previously been or are expected to be charged-off loans. The Company has elected to not forecast recoveries.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses.

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

Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental and economic conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist.

The Company applies Probability of Default (PD), and Loss Given Default (LGD), methodologies for all portfolio segments. The Company uses a Transition Matrix (TM) for PD components of the methodology and a historical average for the LGD components of methodology. The PD and LGD is applied to the current principal balance as of the reporting date. The TM determines the PD by tracking the historical movement of loans between loan risk tiers over a defined period of time. The Company currently has 16 portfolio segments for which we track monthly movement between either risk ratings or delinquency bands.

While the TM functions similarly across all portfolio segments, generally speaking, commercial portfolios use the Company's risk rating scale and consumer portfolios use the delinquency day count, or delinquency band. Loans using risk ratings are scored utilizing the Company's risk rating scale. The risk rating scale is 1-10, with 1 being the best rating, 6 being a pass but on watch, and 7-10 being various stages of criticized loans. Risk ratings 8 or greater and in a non-accrual status are considered in a defaulted state. Loans using delinquency band are measured using a 5-grade band, with 1 being current and 5 being 90 or more days past due.

The LGD used as the basis for the estimate of credit losses is comprised of the Company's historical loss experience from 2008 to the current period. The model compares the most recent period losses to prior period defaults to calculate the LGD, which is averaged over the historical observations.

Economic scenarios and forecasts along with current portfolio conditions and trends are monitored and accounted for through the Company's qualitative framework. The Company utilizes a one-year forecast period.

The Company segments the loan portfolio into pools based on the following risk characteristics: financial asset type, collateral type, loan characteristics, credit characteristics, outstanding loan balances, contractual terms and prepayment assumptions, vintage, industry of borrower and concentrations, and historical or expected credit loss.

The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

Portfolio segments using the Company's risk ratings include the following:

Commercial real estate non-owner-occupied loans. These loans include a mix of variable and fixed rate non-farm, non-residential real estate loans secured by non-owner-occupied properties. Commercial real estate non-owner-occupied loans are generally secured by first liens on income-producing real estate and generally mature in less than 10 years.

Commercial real estate owner-occupied loans. Non-farm, non-residential real estate loans are generally secured by first liens on real estate where the owner occupant is the majority tenant of the property and generally mature in less than 10 years.

Construction land acquisition and development loans. Construction land acquisition and development loans are primarily to commercial builders for residential lot development and the construction of single-family residences and commercial real estate properties. Construction loans are generally underwritten pursuant to pre-approved permanent financing. During the construction phase the borrower pays interest only. Construction land acquisition and development loans generally mature in three years or less.

Residential construction loans. Construction residential loans are primarily to commercial builders or owner occupants for the construction of single-family residences. Construction loans are generally underwritten pursuant to credit worthiness or pre-qualification for permanent financing. During the construction phase the borrower pays interest only. Residential construction loans generally mature in one to two years.

Commercial construction loans. Commercial construction loans are primarily to commercial builders for commercial real estate properties. Construction loans are generally underwritten pursuant to credit worthiness or pre-qualification for permanent financing. During the construction phase the borrower pays interest only. Commercial construction loans generally mature in two years or less.

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Agricultural real estate loans. These include loans secured by farmland or ranchland consisting of short, intermediate, and long-term structures to experienced agriculturalists who have demonstrated management capabilities, established production and historical financial performance. Agricultural real estate loans generally mature in ten years or less.

Commercial and floor plan loans. The Company provides a mix of variable and fixed rate commercial loans in addition to loans to finance dealership floor inventories. The loans are typically made to small and medium-sized manufacturing, wholesale, retail and service businesses for working capital needs and business expansions. Commercial loans generally include lines of credit, business credit cards and loans with maturities of five years or less and outstanding balances tend to be cyclical in nature. The loans are generally made with business operations as the primary source of repayment, and are typically collateralized by inventory, accounts receivable, equipment, and/or personal guarantees. Commercial and floor plan loans generally mature in seven years or less.

Commercial purpose secured by 1-4 family loans. These include loans for commercial purposes secured by 1-4 family residential property. Commercial purpose loans secured by 1-4 family generally mature in seven years or less.

Agricultural loans. Agricultural loans generally consist of short and medium-term loans and lines of credit that are primarily used for crops, livestock, equipment, and general operations. Agricultural loans are ordinarily secured by assets such as livestock or equipment and are repaid from the operations of the farm or ranch. Agricultural loans generally have maturities of seven years or less, with operating lines for one production season.

Portfolio segments utilizing the delinquency bands include the following:

Consumer indirect loans. These include loan contracts advanced for the purchase of automobiles, boats, and other consumer goods from the consumer product dealer networks within the market areas we serve. Indirect dealer loans are generally secured by automobiles, recreational vehicles, boats, and other types of personal property and are made on an installment basis. Consumer indirect line loans generally mature in seven years or less.

Consumer direct and advance line loans. These loans are originated for a variety of purposes including the purchase of automobiles, boats and other consumer goods, home improvements, medical expenses, vehicle repairs, debt consolidation, and planned expenses. Consumer direct and advance line loans generally mature in seven years or less.

Consumer credit card loans. These are lines of credit offered to clients in our market areas that are generally floating rate loans and include both unsecured and secured lines. Consumer credit card loans generally do not have stated maturities but are reviewed periodically and are unconditionally cancellable.

Consumer home equity and home equity lines of credit ("HELOC"). These include home equity loans and lines of credit that are secured by residential property. Consumer home equity generally mature in 15 years or less and HELOC loans generally mature in 25 years or less.

Residential 1-4 family and multi-family lending. These are loans to finance the purchase or refinance of residential property which are typically secured by first liens, inclusive of 1-4 Family as well as 5+ residential properties. Residential 1-4 family generally mature within 15 years but can be up to 30 years. Multifamily loans generally mature in ten years or less.

Commercial real estate multi-family loans. Commercial real estate multi-family loans are generally secured by first liens on income-producing rental real estate consisting of 5 or more residential dwelling units and generally mature in less than 10 years. For CECL related segmentation, multi-family loans are modeled with residential 1-4 family but are reported under Commercial Real Estate.

Commercial credit card loans. These are lines of credit for commercial purposes that are generally floating rate loans and include both unsecured and secured lines. For CECL related segmentation, commercial credit card loans are modeled separately but are reported under Commercial. Commercial credit card loans generally do not have stated maturities but are reviewed periodically and are unconditionally cancellable.

Agricultural credit card loans. Lines of credit for agricultural purposes that are generally floating rate loans and are unsecured or secured. For CECL related segmentation, agricultural credit card loans are modeled separately but are reported under Commercial. Agricultural credit card loans generally do not have stated maturities but are reviewed periodically and are unconditionally cancellable.

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

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

A loan for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, is considered to be a troubled debt restructurings ("TDR"). The allowance for credit loss on a TDR is measured using the same method as all other loans held for investment, except when the value of a concession cannot be measured using a method other than the discounted cash flow method. When the value of a concession is measured using the discounted cash flow method, the allowance for credit loss is determined by discounting the expected future cash flows at the original interest rate of the loan.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. Management considers our unused credit card lines and federal fund lines, extended to others, to be considered unconditionally cancellable. Credit cards receivables are run through the transition matrices and their unused lines are excluded from the final loss calculation because they are unconditionally cancellable. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate considers the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over the estimated life.

The Company has identified commitments to extend credit and standby letters of credit determined not to be unconditionally cancellable as categories with off-balance sheet credit exposures and uses the commitment balance, expected loss rate, and utilization rate as primary assumptions to develop the allowance for credit losses on those exposures. The loss rate expectation is the same for both the unfunded and funded portions of the credit exposure. The utilization rate represents management's best estimate of the probability that the unfunded portion of the commitment will be funded given existing economic conditions.

(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 463,134 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 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 was recorded as goodwill. The purchase price allocation resulted in goodwill of \$2.3 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.

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The Company recorded net assets acquired of approximately \$16.5 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 \$112.6 million of liabilities, inclusive of \$110.1 million of deposits. All amounts reported were finalized during the fourth quarter of 2019.

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 six months ended June 30, 2020, 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 3,871,422 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 were 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 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 \$73.0 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. All amounts reported were finalized during the fourth quarter of 2019.

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<i>As of April 8, 2019</i>	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	4.8 (4)	21.3
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	(2.6) (7)	0.6
Other assets	8.6	(0.7) (8)	7.9
Total assets acquired	719.1	14.1	733.2
Liabilities assumed:			
Deposits	596.5	0.1 (9)	596.6
Accounts payable and accrued expense	15.2	2.6 (10)	17.8
Other borrowed funds	4.0	0.1 (11)	4.1
Securities sold under repurchase agreements	30.4	—	30.4
Total liabilities assumed	646.1	2.8	648.9
Net assets acquired	\$ 73.0	\$ 11.3	\$ 84.3
Consideration paid:			
Class A common stock			\$ 157.3
Total consideration paid			\$ 157.3
Goodwill			\$ 73.0

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.

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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.

Effective January 1, 2020, the Company began accounting for PCD loans pursuant to ASC Topic 326. As such, the following disclosures are no longer applicable for the current period and are only presented for periods prior to the adoption of ASC Topic 326. Prior to the adoption of ASC 326, the Company acquired certain loans that were 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 purchased loans acquired in business combinations, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The Company has purchased such loans through business combinations. 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 underlying credit-impaired loans, (ii) assumptions regarding future principal and interest amounts collected, and (iii) indices used to fair value variable rate loans.

Information regarding 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 six months ended June 30, 2020, 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.

The Company recorded no pre-tax acquisition related expenses for the three and six month periods ended June 30, 2020.

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(3) Investment Securities

The amortized cost and the approximate fair values of investment securities are summarized for the periods indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>June 30, 2020</i>				
<i>Available-for-Sale:</i>				
U.S. Treasury notes	\$ 10.1	\$ —	\$ —	\$ 10.1
State, county and municipal securities	122.4	1.9	(0.1)	124.2
Obligations of U.S. government agencies	264.4	1.1	—	265.5
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	2,528.0	82.3	(0.7)	2,609.6
Private mortgage-backed securities	31.0	0.2	(0.1)	31.1
Corporate securities	271.9	4.8	(0.8)	275.9
Other investments	1.2	—	—	1.2
Total	\$ 3,229.0	\$ 90.3	\$ (1.7)	\$ 3,317.6

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>June 30, 2020</i>				
<i>Held-to-Maturity:</i>				
State, county and municipal securities	\$ 52.9	\$ 2.9	\$ —	\$ 55.8
Obligations of U.S. government agencies	9.8	—	—	9.8
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	1.1	0.1	—	1.2
Corporate securities	4.0	0.2	—	4.2
Other investments	0.1	—	—	0.1
Total	\$ 67.9	\$ 3.2	\$ —	\$ 71.1

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>December 31, 2019</i>				
<i>Available-for-Sale:</i>				
U.S. Treasury notes	\$ 9.0	\$ —	\$ —	\$ 9.0
State, county and municipal securities	80.1	0.8	—	80.9
Obligations of U.S. government agencies	367.5	0.1	(0.8)	366.8
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	2,303.6	19.6	(6.0)	2,317.2
Private mortgage-backed securities	47.6	—	(0.4)	47.2
Corporate securities	134.5	1.2	—	135.7
Other investments	3.2	—	—	3.2
Total	\$ 2,945.5	\$ 21.7	\$ (7.2)	\$ 2,960.0

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>December 31, 2019</i>				
<i>Held-to-Maturity:</i>				
State, county and municipal securities	\$ 57.3	\$ 2.1	\$ —	\$ 59.4
Obligations of U.S. government agencies	19.8	—	—	19.8
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	1.2	—	—	1.2
Corporate securities	13.9	0.1	—	14.0
Other investments	0.1	—	—	0.1
Total	\$ 92.3	\$ 2.2	\$ —	\$ 94.5

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There were no material gross realized gains or losses from the disposition of available-for-sale investment securities for the three and six month periods ended June 30, 2020 and 2019.

The following tables show the gross unrealized losses and fair values of available-for-sale 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, 2020 and December 31, 2019. There was no material allowance for credit loss as of June 30, 2020.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>June 30, 2020</i>						
<i>Available-for-Sale:</i>						
State, county and municipal securities	\$ 15.1	\$ (0.1)	\$ —	\$ —	\$ 15.1	\$ (0.1)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	113.2	(0.6)	19.3	(0.1)	132.5	(0.7)
Private mortgage-backed securities	—	—	18.3	(0.1)	18.3	(0.1)
Corporate securities	46.7	(0.8)	—	—	46.7	(0.8)
Total	\$ 175.0	\$ (1.5)	\$ 37.6	\$ (0.2)	\$ 212.6	\$ (1.7)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>December 31, 2019</i>						
<i>Available-for-Sale:</i>						
Obligations of U.S. government agencies	\$ 185.3	\$ (0.8)	\$ —	\$ —	\$ 185.3	\$ (0.8)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	740.1	(4.6)	155.9	(1.4)	896.0	(6.0)
Private mortgage-backed securities	—	—	46.6	(0.4)	46.6	(0.4)
Total	\$ 925.4	\$ (5.4)	\$ 202.5	\$ (1.8)	\$ 1,127.9	\$ (7.2)

The available-for-sale securities portfolio contains securities that are guaranteed by a sovereign entity or are generally considered to have non-credit related risks, such as interest rate risk or prepayment and liquidity factors. The Company considers whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred. The unrealized losses are due to changes in interest rates and other market conditions.

The Company had 142 and 331 individual available-for-sale investment securities that were in an unrealized loss position as of June 30, 2020 and December 31, 2019, respectively, related primarily to fluctuations in the current interest rates. As of June 30, 2020, 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.

There was not a material allowance for credit losses during the three and six month periods ended June 30, 2020 or 2019 for available-for-sale or held-to-maturity securities.

Maturities of investment securities at June 30, 2020 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.

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	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
June 30, 2020				
Within one year	\$ 619.6	\$ 722.3	\$ 19.1	\$ 19.2
After one year but within five years	1,455.7	1,381.5	29.4	30.5
After five years but within ten years	609.0	698.6	17.7	19.7
After ten years	544.7	515.2	1.7	1.7
Total	\$ 3,229.0	\$ 3,317.6	\$ 67.9	\$ 71.1

As of June 30, 2020, the Company held investment securities callable within one year with amortized costs and estimated fair values of \$245.0 million and \$245.7 million, respectively. These investment securities are primarily included in the “after one year but within five years” category in the table above. As of June 30, 2020, the Company held no callable structured notes.

(4) Loans Held for Sale

Mortgage loans held for immediate sale in the secondary market were \$169.9 million as of June 30, 2020, compared to \$100.9 million as of December 31, 2019. Residential loans that the Company originated with the intent to sell are recorded at fair value. Conforming agency mortgage production is sold on a servicing retained basis. Certain loans, such as government guaranteed mortgage loans are sold on a servicing released basis.

(5) Loans Held for Investment

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

	June 30, 2020	December 31, 2019
Real estate loans:		
Commercial	\$ 3,593.8	\$ 3,487.8
Construction loans:		
Land acquisition & development	285.3	302.1
Residential	246.2	244.1
Commercial	459.8	431.5
Total construction loans	991.3	977.7
Residential	1,287.6	1,246.1
Agricultural	224.2	226.6
Total real estate loans	6,096.9	5,938.2
Consumer loans:		
Indirect	801.9	784.6
Direct and advance lines	169.3	179.0
Credit card	70.6	81.6
Total consumer loans	1,041.8	1,045.2
Commercial	2,648.6	1,673.7
Agricultural	282.8	279.1
Other, including overdrafts	3.7	—
Loans held for investment	10,073.8	8,936.2
Deferred loan fees and costs	(41.3)	(5.5)
Loans held for investment, net of deferred fees and costs	10,032.5	8,930.7
Allowance for credit losses	(146.1)	(73.0)
Net loans held for investment	\$ 9,886.4	\$ 8,857.7

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Allowance for credit losses

The following table represents, by loan portfolio segment, the activity in the allowance for credit losses for loans held for investment:

<i>Three Months Ended June 30, 2020</i>	Beginning Balance	Provision for Credit Loss Expense	Loans Charged- Off	Recoveries Collected	Ending Balance
Allowance for credit losses ⁽¹⁾					
Real estate:					
Commercial real estate:					
Non-owner occupied	\$ 15.7	\$ 7.9	\$ —	\$ —	\$ 23.6
Owner occupied	15.7	3.4	(0.1)	0.1	19.1
Multi-family	8.1	0.4	—	—	8.5
Total commercial real estate	39.5	11.7	(0.1)	0.1	51.2
Construction:					
Land acquisition & development	1.4	0.1	—	—	1.5
Residential construction	1.1	0.2	—	—	1.3
Commercial construction	6.1	0.2	—	—	6.3
Total construction	8.6	0.5	—	—	9.1
Residential real estate:					
Residential 1-4 family	12.9	(2.7)	—	0.1	10.3
Home equity and HELOC	1.4	—	—	0.1	1.5
Total residential real estate	14.3	(2.7)	—	0.2	11.8
Agricultural real estate	2.6	0.5	—	—	3.1
Total real estate	65.0	10.0	(0.1)	0.3	75.2
Consumer:					
Indirect	16.7	0.5	(1.2)	0.4	16.4
Direct and advance lines	5.5	0.3	(1.0)	0.3	5.1
Credit card	2.6	—	(0.8)	0.2	2.0
Total consumer	24.8	0.8	(3.0)	0.9	23.5
Commercial:					
Commercial and floor plans	33.5	7.7	(0.6)	0.4	41.0
Commercial purpose secured by 1-4 family	4.4	0.6	—	0.1	5.1
Credit card	0.3	0.3	(0.3)	0.1	0.4
Total commercial	38.2	8.6	(0.9)	0.6	46.5
Agricultural:					
Agricultural	1.1	(0.1)	(0.1)	—	0.9
Total agricultural	1.1	(0.1)	(0.1)	—	0.9
Total allowance for credit losses	\$ 129.1	\$ 19.3	\$ (4.1)	\$ 1.8	\$ 146.1

(1) Amounts presented above are exclusive of the allowance for credit losses related to unfunded commitments which are included in “Note 12 - Financial Instruments with Off-Balance Sheet Risk” included in this report.

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<i>Six Months Ended June 30, 2020</i>	Beginning Balance	Initial Impact of Adopting ASC 326	Provision for Credit Loss Expense	Loans Charged- Off	Recoveries Collected	Ending Balance
Allowance for credit losses ⁽¹⁾						
Real estate:						
Commercial real estate:						
Non-owner occupied	\$ 8.8	\$ 4.9	\$ 9.9	\$ —	\$ —	23.6
Owner occupied	10.0	3.5	5.6	(0.1)	0.1	19.1
Multi-family	0.7	6.9	0.9	—	—	8.5
Total commercial real estate	19.5	15.3	16.4	(0.1)	0.1	51.2
Construction:						
Land acquisition & development	1.9	(0.1)	0.2	(0.5)	—	1.5
Residential construction	1.5	(0.9)	0.7	—	—	1.3
Commercial construction	2.7	1.3	2.3	—	—	6.3
Total construction	6.1	0.3	3.2	(0.5)	—	9.1
Residential real estate:						
Residential 1-4 family	1.8	10.6	(2.2)	—	0.1	10.3
Home equity and HELOC	1.0	0.5	(0.1)	—	0.1	1.5
Total residential real estate	2.8	11.1	(2.3)	—	0.2	11.8
Agricultural real estate	0.5	1.8	0.8	—	—	3.1
Total real estate	28.9	28.5	18.1	(0.6)	0.3	75.2
Consumer:						
Indirect	4.5	8.8	4.4	(2.4)	1.1	16.4
Direct and advance lines	2.9	3.0	0.7	(2.0)	0.5	5.1
Credit card	2.5	0.3	0.4	(1.6)	0.4	2.0
Total consumer	9.9	12.1	5.5	(6.0)	2.0	23.5
Commercial:						
Commercial and floor plans	25.5	(5.1)	21.2	(1.4)	0.8	41.0
Commercial purpose secured by 1-4 family	5.9	(3.8)	3.0	(0.1)	0.1	5.1
Credit card	1.2	(1.1)	0.7	(0.5)	0.1	0.4
Total commercial	32.6	(10.0)	24.9	(2.0)	1.0	46.5
Agricultural:						
Agricultural	1.6	(0.6)	—	(0.1)	—	0.9
Total agricultural	1.6	(0.6)	—	(0.1)	—	0.9
Total allowance for credit losses	\$ 73.0	\$ 30.0	\$ 48.5	\$ (8.7)	\$ 3.3	146.1

(1) Amounts presented above are exclusive of the allowance for credit losses related to unfunded commitments which are included in “Note 12 - Financial Instruments with Off-Balance Sheet Risk” included in this report.

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The following table represents activity in the allowance for credit losses for loans held for investment under historical GAAP:

<i>Three Months Ended June 30, 2019</i>	Provision for Credit Loss				
	Beginning Balance	Expense	Loans Charged-Off	Recoveries Collected	Ending Balance
Allowance for credit losses					
Real estate	\$ 27.4	\$ —	\$ (0.9)	\$ 1.2	\$ 27.7
Consumer	8.8	2.4	(3.3)	1.2	9.1
Commercial	34.5	1.1	(1.1)	1.2	35.7
Agricultural	1.7	0.3	(0.3)	—	1.7
Total allowance for credit losses	\$ 72.4	\$ 3.8	\$ (5.6)	\$ 3.6	\$ 74.2

<i>Six Months Ended June 30, 2019</i>	Provision for Credit Loss				
	Beginning Balance	Expense	Loans Charged-Off	Recoveries Collected	Ending Balance
Allowance for credit losses					
Real estate	\$ 31.0	\$ (1.7)	\$ (3.0)	\$ 1.4	\$ 27.7
Consumer	8.7	4.4	(6.3)	2.3	9.1
Commercial	31.3	4.7	(1.9)	1.6	35.7
Agricultural	2.0	0.1	(0.4)	—	1.7
Total allowance for credit losses	\$ 73.0	\$ 7.5	\$ (11.6)	\$ 5.3	\$ 74.2

Collateral dependent financial loans

A collateral dependent financial loan relies solely on the operation or sale of the collateral for repayment. In evaluating the overall risk associated with a loan, the Company considers character, overall financial condition and resources, and payment record of the borrower; the prospects for support from any financially responsible guarantors; and the nature and degree of protection provided by the cash flow and value of any underlying collateral. The loan may become collateral dependent where the borrower is experiencing financial difficulty and as sources of repayment become inadequate over time and that repayment is expected to be provided substantially through the operation or sale of the collateral. The following tables present the amortized cost basis of collateral dependent loans by class of loans as of June 30, 2020. The comparable period is not presented because the collateral dependent type loans classification did not exist under prior GAAP. Under historical guidance, the recorded investment of impaired loans and the related specific reserve was \$64.7 million and \$3.6 million, respectively, as of December 31, 2019.

<i>As of June 30, 2020</i>	Collateral Type			
	Business Assets	Real Property	Other	Total
Real estate	\$ 0.3	\$ 0.6	\$ —	\$ 0.9
Commercial	5.5	5.5	0.5	11.5
Agricultural	—	0.1	—	0.1
Total collateral-dependent	\$ 5.8	\$ 6.2	\$ 0.5	\$ 12.5

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Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans classified in the following table as greater than 90 days past due are still accruing interest. The following tables present the contractual aging of the Company's recorded amortized cost basis in loans by portfolio as of the dates indicated.

	Total Loans						
	30 - 59	60 - 89	> 90	30 or More	Current	Non-accrual	Total
	Days	Days	Days	Days	Loans	Loans ⁽¹⁾	Loans
<i>As of June 30, 2020</i>	Past Due	Past Due	Past Due	Past Due			
Real estate							
Commercial	\$ 5.1	\$ 1.2	\$ 0.8	\$ 7.1	\$ 3,573.7	\$ 13.0	\$ 3,593.8
Construction:							
Land acquisition & development	15.8	0.4	0.3	16.5	268.1	0.7	285.3
Residential	4.7	0.6	0.5	5.8	240.4	—	246.2
Commercial	—	—	—	—	459.3	0.5	459.8
Total construction loans	20.5	1.0	0.8	22.3	967.8	1.2	991.3
Residential	4.6	3.3	0.3	8.2	1,275.4	4.0	1,287.6
Agricultural	—	—	1.0	1.0	215.8	7.4	224.2
Total real estate loans	30.2	5.5	2.9	38.6	6,032.7	25.6	6,096.9
Consumer:							
Indirect consumer	3.6	1.1	0.2	4.9	795.0	2.0	801.9
Other consumer	0.5	0.2	0.2	0.9	167.7	0.7	169.3
Credit card	0.6	0.3	0.6	1.5	69.1	—	70.6
Total consumer loans	4.7	1.6	1.0	7.3	1,031.8	2.7	1,041.8
Commercial	7.1	5.6	3.1	15.8	2,614.3	18.5	2,648.6
Agricultural	1.5	0.6	0.7	2.8	276.9	3.1	282.8
Other, including overdrafts	—	—	—	—	3.7	—	3.7
Loans held for investment	\$ 43.5	\$ 13.3	\$ 7.7	\$ 64.5	\$ 9,959.4	\$ 49.9	\$ 10,073.8

	Total Loans						
	30 - 59	60 - 89	> 90	30 or More	Current	Non-accrual	Total
	Days	Days	Days	Days	Loans	Loans ⁽¹⁾	Loans
<i>As of December 31, 2019</i>	Past Due	Past Due	Past Due	Past Due			
Real estate							
Commercial	\$ 5.5	\$ 1.1	\$ 0.6	\$ 7.2	\$ 3,467.6	\$ 13.0	\$ 3,487.8
Construction:							
Land acquisition & development	0.7	0.8	0.3	1.8	298.9	1.4	302.1
Residential	1.5	0.8	—	2.3	241.8	—	244.1
Commercial	—	—	—	—	431.0	0.5	431.5
Total construction loans	2.2	1.6	0.3	4.1	971.7	1.9	977.7
Residential	3.8	1.4	1.1	6.3	1,235.2	4.6	1,246.1
Agricultural	0.8	0.5	—	1.3	220.1	5.2	226.6
Total real estate loans	12.3	4.6	2.0	18.9	5,894.6	24.7	5,938.2
Consumer:							
Indirect consumer	7.6	1.9	0.5	10.0	773.0	1.6	784.6
Other consumer	1.2	0.5	0.1	1.8	176.7	0.5	179.0
Credit card	0.8	0.5	0.8	2.1	79.5	—	81.6
Total consumer loans	9.6	2.9	1.4	13.9	1,029.2	2.1	1,045.2
Commercial	4.8	2.6	2.3	9.7	1,650.3	13.7	1,673.7
Agricultural	0.9	0.1	—	1.0	275.7	2.4	279.1
Other, including overdrafts	—	—	—	—	—	—	—
Loans held for investment	\$ 27.6	\$ 10.2	\$ 5.7	\$ 43.5	\$ 8,849.8	\$ 42.9	\$ 8,936.2

(1) As of June 30, 2020 and December 31, 2019, none of our non-accrual loans were earning interest income. Additionally, no material interest income was recognized on non-accrual loans during the three and six months ended June 30, 2020 and 2019, respectively. Accrued interest of \$0.2 million and \$0.4 million was reversed during the three and six months ended June 30, 2020 and 2019, respectively.

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

Modifications of performing loans are made in the ordinary course of business and are completed on a case-by-case basis as negotiated with the borrower in connection with the ongoing loan collection processes. 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 if the borrower has sustained repayment performance in accordance with the restructuring agreement for a period of at least six months and management is reasonably assured of the borrower's 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. Any such loan will continue to be individually evaluated for credit deterioration and disclosed as collateral dependent loans.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020 in response to the recent outbreak of a new strain of coronavirus (also known as, and hereinafter referred to as "COVID-19"). Key provisions of the CARES Act include one-time payments to individuals, strengthened unemployment insurance, additional health-care funding, temporary amendments to the Internal Revenue Code and loans and grants to certain businesses. The CARES Act provides all financial institutions with the option to elect either or both of the following beginning March 1, 2020 and ending the earlier of December 31, 2020 or the date that is 60 days after the termination of the national emergency: (1) to suspend the requirements under GAAP for loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR; and/or (2) to suspend any determination of a loan modified as being a TDR as a result of the effects of the COVID-19 pandemic, including impairment for accounting purposes. If a bank elects a suspension noted above, the suspension (a) will be effective for the term of the loan modification, but solely with respect to any modification, including a forbearance arrangement, an interest rate modification, a repayment plan, and any other similar arrangement that defers or delays the payment of principal or interest, occurring for a loan that was not more than 30 days past due as of December 31, 2019; and (b) will not apply to any adverse impact on the credit of a borrower that is not related to the COVID-19 pandemic. The Company has elected to apply these provisions at the individual loan level.

The Company renegotiated loans in troubled debt restructurings in the amount of \$22.5 million as of June 30, 2020, of which \$19.1 million were included in non-accrual loans and \$3.4 million were on accrual status. The Company allocated \$5.8 million of allowance for credit losses to those loans. The Company had no material commitments to lend additional funds to borrowers whose existing loans have been renegotiated or are classified as non-accrual.

The Company renegotiated loans in troubled debt restructurings in the amount of \$24.9 million as of December 31, 2019, of which \$19.4 million were included in non-accrual loans and \$5.5 million were on accrual status. The Company allocated \$0.3 million of allowance for credit losses to those loans. The Company had no material commitments to lend additional funds to borrowers whose existing loans have been renegotiated or are classified as non-accrual.

The Company had no material new troubled debt restructurings during the three and six months ended June 30, 2020.

For troubled debt restructurings that were on non-accrual status or otherwise deemed collateral dependent 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 credit deterioration and recognizes credit loss 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 six months ended June 30, 2020 or 2019.

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

The Company had no material troubled debt restructurings during the previous 12 months for which there was a payment default during the three and six months ended June 30, 2020. The Company considers a payment default to occur on troubled debt restructurings when the loan is 90 days or more past due or is placed on non-accrual status after the modification.

The terms of certain other loans were modified during the quarter ended June 30, 2020 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of June 30, 2020 of \$84.5 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Credit quality indicators

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 based on relevant information about the ability of borrowers to service their debt including, among other factors, current financial information, historical payment experience, credit documentation, public information, and current economic trends. The Company analyzes loans individually to classify the credit risk of the loans. This analysis generally includes loans with an outstanding balance greater than \$1.0 million, which are generally considered non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed no less than on an annual basis, dependent upon the size of exposure and the financial reporting frequency to which the borrower is contractually obligated. Homogeneous loans, including small business loans are typically managed by payment performance. The Company risk rates its loans internally in accordance with 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 in addition to the 6 Pass ratings in its 10-point rating scale:

Special Mention — includes loans that exhibit a potential weakness in financial condition, loan structure, or documentation that warrants management's close attention. If not promptly corrected, the potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard — includes loans that are inadequately protected by the current net worth and paying capacity of the borrower which have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. Although the primary source of repayment for a substandard loan may not currently be 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 on the basis of currently existing facts, conditions, and values to a point where collection or liquidation for full repayment is highly questionable and improbable. Doubtful loans are required to be placed on non-accrual status and are assigned specific loss exposure.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
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The Company evaluates the credit quality and loan performance for the allowance for credit loan losses of the following segments based on the aforementioned risk scale:

June 30, 2020																
Risk by Collateral	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total								
	2020	2019	2018	2017	2016	Prior										
Commercial real estate non-owner occupied:																
Pass	\$	257.6	\$	326.4	\$	224.7	\$	120.7	\$	169.4	\$	385.0	\$	20.0	\$	1,503.8
Special mention		—		3.2		1.3		0.1		0.5		15.4		—		20.5
Substandard		15.6		2.8		0.4		1.3		1.3		14.6		—		36.0
Doubtful		—		—		0.2		—		—		—		—		0.2
Total	\$	273.2	\$	332.4	\$	226.6	\$	122.1	\$	171.2	\$	415.0	\$	20.0	\$	1,560.5
Commercial real estate owner occupied:																
Pass	\$	219.9	\$	333.3	\$	232.7	\$	160.3	\$	178.5	\$	445.1	\$	15.5	\$	1,585.3
Special mention		2.9		7.1		7.5		0.9		9.5		13.9		0.3		42.1
Substandard		6.1		7.2		9.7		5.6		18.7		18.6		0.5		66.4
Doubtful		0.2		—		0.2		0.1		0.4		0.1		—		1.0
Total	\$	229.1	\$	347.6	\$	250.1	\$	166.9	\$	207.1	\$	477.7	\$	16.3	\$	1,694.8
Land, acquisition and development:																
Pass	\$	60.2	\$	83.4	\$	50.3	\$	36.5	\$	11.1	\$	32.5	\$	5.3	\$	279.3
Special mention		0.5		0.1		0.1		1.0		—		1.2		0.2		3.1
Substandard		0.3		0.1		1.2		0.6		—		0.2		0.4		2.8
Doubtful		—		—		—		—		—		0.1		—		0.1
Total	\$	61.0	\$	83.6	\$	51.6	\$	38.1	\$	11.1	\$	34.0	\$	5.9	\$	285.3
Residential construction:																
Pass	\$	52.5	\$	99.5	\$	26.0	\$	6.4	\$	0.3	\$	0.3	\$	59.7	\$	244.7
Special mention		—		—		—		—		—		—		—		—
Substandard		0.3		—		1.2		—		—		—		—		1.5
Doubtful		—		—		—		—		—		—		—		—
Total	\$	52.8	\$	99.5	\$	27.2	\$	6.4	\$	0.3	\$	0.3	\$	59.7	\$	246.2
Commercial construction:																
Pass	\$	96.0	\$	231.9	\$	85.7	\$	22.4	\$	9.8	\$	0.5	\$	10.7	\$	457.0
Special mention		—		—		1.5		—		—		—		—		1.5
Substandard		—		0.8		—		—		—		0.1		—		0.9
Doubtful		—		—		0.4		—		—		—		—		0.4
Total	\$	96.0	\$	232.7	\$	87.6	\$	22.4	\$	9.8	\$	0.6	\$	10.7	\$	459.8
Agricultural real estate:																
Pass	\$	24.4	\$	52.1	\$	32.1	\$	20.2	\$	15.0	\$	34.0	\$	6.3	\$	184.1
Special mention		1.6		2.8		1.3		2.2		0.4		3.9		1.0		13.2
Substandard		0.1		8.9		3.5		1.0		3.5		5.8		2.1		24.9
Doubtful		—		2.0		—		—		—		—		—		2.0
Total	\$	26.1	\$	65.8	\$	36.9	\$	23.4	\$	18.9	\$	43.7	\$	9.4	\$	224.2

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June 30, 2020									
Term Loans Amortized Cost Basis by Origination Year									
Risk by Collateral	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total	
Commercial and floor plans:									
Pass	\$ 1,344.6	\$ 196.5	\$ 166.4	\$ 105.5	\$ 53.8	\$ 115.2	\$ 236.3	\$ 2,218.3	
Special mention	6.0	1.6	1.0	2.4	5.1	0.3	4.0	20.4	
Substandard	8.4	13.2	8.3	0.7	4.9	3.5	11.5	50.5	
Doubtful	1.9	5.6	0.2	0.1	0.1	2.6	0.3	10.8	
Total	\$ 1,360.9	\$ 216.9	\$ 175.9	\$ 108.7	\$ 63.9	\$ 121.6	\$ 252.1	\$ 2,300.0	
Commercial purpose secured by 1-4 family:									
Pass	\$ 40.5	\$ 67.1	\$ 44.2	\$ 27.0	\$ 18.4	\$ 47.8	\$ 20.2	\$ 265.2	
Special mention	0.3	2.0	0.3	0.6	0.5	1.2	0.4	5.3	
Substandard	0.2	3.6	4.5	0.5	1.3	1.8	0.1	12.0	
Doubtful	—	0.1	0.1	—	—	—	0.1	0.3	
Total	\$ 41.0	\$ 72.8	\$ 49.1	\$ 28.1	\$ 20.2	\$ 50.8	\$ 20.8	\$ 282.8	
Agricultural:									
Pass	\$ 33.8	\$ 28.8	\$ 15.5	\$ 6.5	\$ 4.0	\$ 1.3	\$ 154.4	\$ 244.3	
Special mention	2.7	1.7	0.4	0.1	0.1	0.4	7.6	13.0	
Substandard	5.9	2.1	4.9	1.4	0.3	0.4	8.6	23.6	
Doubtful	—	0.1	—	0.1	—	—	—	0.2	
Total	\$ 42.4	\$ 32.7	\$ 20.8	\$ 8.1	\$ 4.4	\$ 2.1	\$ 170.6	\$ 281.1	

The Company evaluates the credit quality, loan performance, and the allowance for credit loan losses of its residential and consumer loan portfolios, based primarily on the aging status of the loan and payment activity. Accordingly, loans on nonaccrual status, loans past due 90 days or more and still accruing interest, and loans modified under troubled debt restructurings are considered to be nonperforming for purposes of credit quality evaluation. The following tables present the recorded investment of our other loan portfolios based on the credit risk profile of loans that are performing and loans that are nonperforming as of the periods indicated:

Risk by Collateral	June 30, 2020							Revolving Loans Amortized Cost Basis	Total	
	Term Loans Amortized Cost Basis by Origination Year									
	2020	2019	2018	2017	2016	Prior				
Commercial multi-family:										
Performing	\$ 68.5	\$ 76.7	\$ 31.0	\$ 30.4	\$ 27.8	\$ 101.5	\$ 2.6	\$ 338.5		
Nonperforming	—	—	—	—	—	—	—	—		
Total	\$ 68.5	\$ 76.7	\$ 31.0	\$ 30.4	\$ 27.8	\$ 101.5	\$ 2.6	\$ 338.5		
Residential 1-4 family:										
Performing	\$ 191.0	\$ 129.2	\$ 84.3	\$ 73.3	\$ 86.2	\$ 309.0	\$ —	\$ 873.0		
Nonperforming	—	0.4	—	—	—	0.7	—	1.1		
Total	\$ 191.0	\$ 129.6	\$ 84.3	\$ 73.3	\$ 86.2	\$ 309.7	\$ —	\$ 874.1		
Consumer home equity and HELOC:										
Performing	\$ 8.7	\$ 10.6	\$ 10.5	\$ 13.2	\$ 5.7	\$ 16.4	\$ 347.8	\$ 412.9		
Nonperforming	—	—	—	—	—	0.4	0.2	0.6		
Total	\$ 8.7	\$ 10.6	\$ 10.5	\$ 13.2	\$ 5.7	\$ 16.8	\$ 348.0	\$ 413.5		

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Risk by Collateral	June 30, 2020							Revolving Loans Amortized Cost Basis	Total							
	Term Loans Amortized Cost Basis by Origination Year															
	2020	2019	2018	2017	2016	Prior										
Consumer indirect:																
Performing	\$	184.7	\$	238.8	\$	152.5	\$	100.4	\$	67.7	\$	56.8	\$	—	\$	800.9
Nonperforming		—		0.4		0.2		0.1		0.1		0.2		—		1.0
Total	\$	184.7	\$	239.2	\$	152.7	\$	100.5	\$	67.8	\$	57.0	\$	—	\$	801.9
Consumer direct and advance line:																
Performing	\$	29.8	\$	39.4	\$	39.9	\$	17.0	\$	8.0	\$	11.2	\$	23.5	\$	168.8
Nonperforming		—		0.1		0.1		0.1		—		—		0.2		0.5
Total	\$	29.8	\$	39.5	\$	40.0	\$	17.1	\$	8.0	\$	11.2	\$	23.7	\$	169.3

The Company considers the performance of the loan portfolio and its impact on the allowance for credit loan losses. For certain credit card loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in credit card loans based on payment activity:

<i>As of June 30, 2020</i>	Consumer	Commercial	Agricultural	Total
Credit Card:				
Performing	\$ 70.0	\$ 64.7	\$ 1.7	\$ 136.4
Nonperforming	0.6	1.1	—	1.7
Total	\$ 70.6	\$ 65.8	\$ 1.7	\$ 138.1

The following presents the recorded investment in the Company's loans by risk grades and loan class as of the date shown below:

<i>As of December 31, 2019</i>	Pass	Other Assets Especially Mentioned	Substandard	Doubtful	Total Criticized Loans	Total Loans
Real estate:						
Commercial	\$ 3,305.0	\$ 84.7	\$ 97.3	\$ 0.8	\$ 182.8	\$ 3,487.8
Construction:						
Land acquisition & development	295.4	3.8	1.9	1.0	6.7	302.1
Residential	241.0	0.9	2.2	—	3.1	244.1
Commercial	428.3	1.7	1.5	—	3.2	431.5
Total construction loans	964.7	6.4	5.6	1.0	13.0	977.7
Residential	1,235.4	2.6	7.8	0.3	10.7	1,246.1
Agricultural	185.7	14.3	26.6	—	40.9	226.6
Total real estate loans	5,690.8	108.0	137.3	2.1	247.4	5,938.2
Consumer:						
Indirect consumer	781.5	0.2	2.9	—	3.1	784.6
Direct consumer	177.7	0.4	0.8	0.1	1.3	179.0
Credit card	81.6	—	—	—	—	81.6
Total consumer loans	1,040.8	0.6	3.7	0.1	4.4	1,045.2
Commercial	1,569.4	40.4	60.3	3.6	104.3	1,673.7
Agricultural	247.8	8.5	22.7	0.1	31.3	279.1
Total	\$ 8,548.8	\$ 157.5	\$ 224.0	\$ 5.9	\$ 387.4	\$ 8,936.2

There were no material purchases of portfolio loans and no material sales of loan held for investment during the three and six months ended June 30, 2020 or 2019.

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Purchased credit deteriorated loans

The Company has purchased loans acquired in business combinations, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. See “Note 2 - Acquisitions” included in this report, for additional details.

(6) Other Real Estate Owned

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Beginning balance	\$ 8.2	\$ 21.1	\$ 8.5	\$ 14.4
OREO acquired through acquisition	—	2.4	—	2.4
Additions	0.3	4.9	1.2	13.3
Valuation adjustments	—	(0.1)	—	(0.4)
Dispositions	(2.0)	(0.7)	(3.2)	(2.1)
Ending balance	\$ 6.5	\$ 27.6	\$ 6.5	\$ 27.6

The carrying values of foreclosed residential real estate properties included in other real estate owned were \$2.2 million and \$2.3 million as of June 30, 2020 and December 31, 2019, respectively. The Company had recorded investments in consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings were in process of foreclosure of \$0.2 million and \$1.4 million as of June 30, 2020 and December 31, 2019, respectively.

(7) Derivatives and Hedging Activities

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

On May 1, 2020, the Company entered into three interest rate swap contracts that were designated as cash flow hedges. The contracts included a notional amount of \$46.4 million, \$36.1 million, and \$5.1 million. The Company pays a fixed interest rate of 0.40%, 0.34%, and 0.40%, respectively, and the counterparty pays to the Company a variable interest rate equal to the three-month LIBOR under the terms of the interest rate swap contracts. No cash was exchanged until the effective date, which began on May 1, 2020 and ends on April 1, 2022, March 15, 2022, and March 30, 2022, respectively. The Company designated the interest payments related to the trust preferred securities as the cash flow hedge. The hedge was fully effective during the current period. As such, no amount of hedge ineffectiveness was included in the Company's income statement for the three and six months ended June 30, 2020. The Company expects the hedge to remain highly effective during the remaining term of the interest rate swap.

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The Company also enters into certain interest rate swap contracts that are not designated as hedging instruments. These derivative contracts relate to transactions in which the Company enters into an interest rate swap with a client 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 client, 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.

	June 30, 2020		December 31, 2019	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivative Assets (included in other assets on the consolidated balance sheets):				
<i>Non-hedging interest rate derivatives:</i>				
Interest rate swap contracts	\$ 610.2	\$ 62.5	\$ 503.2	\$ 21.9
Interest rate lock commitments	305.7	9.8	67.8	1.3
Total derivative assets	\$ 915.9	\$ 72.3	\$ 571.0	\$ 23.2
Derivative Liabilities (included in accounts payable and accrued expenses on the consolidated balance sheets):				
<i>Derivatives designated as hedges:</i>				
Interest rate swap contracts	\$ 87.6	\$ 0.2	\$ —	\$ —
<i>Non-hedging interest rate derivatives:</i>				
Interest rate swap contracts	610.2	62.5	503.2	21.9
Forward loan sales contracts	375.9	3.7	128.0	0.3
Total derivative liabilities	\$ 1,073.7	\$ 66.4	\$ 631.2	\$ 22.2

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The effect of derivative instruments in cash flow hedging relationships on the consolidated statements of income were as follows:

Three Months Ended June 30, 2020	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Interest Expense	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Interest Expense Included Component
Interest rate swap contracts	\$ (0.2)	\$ (0.2)	\$ 0.1	\$ 0.1
Total	\$ (0.2)	\$ (0.2)	\$ 0.1	\$ 0.1

Six Months Ended June 30, 2020	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Interest Expense	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Interest Expense Included Component
Interest rate swap contracts	\$ (0.2)	\$ (0.2)	\$ 0.1	\$ 0.1
Total	\$ (0.2)	\$ (0.2)	\$ 0.1	\$ 0.1

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 June 30, 2020 and December 31, 2019:

June 30, 2020						
	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	\$ 62.5	\$ —	\$ 62.5	\$ —	\$ 32.7	\$ 29.8
Mortgage related derivatives	9.8	—	9.8	—	—	9.8
Total derivatives	72.3	—	72.3	—	32.7	39.6
Total assets	\$ 72.3	\$ —	\$ 72.3	\$ —	\$ 32.7	\$ 39.6
Financial Liabilities						
Interest rate swap contracts	\$ 62.7	\$ —	\$ 62.7	\$ —	\$ —	\$ 62.7
Mortgage related derivatives	3.7	—	3.7	—	—	3.7
Total derivatives	66.4	—	66.4	—	—	66.4
Repurchase agreements	756.1	—	756.1	—	756.1	—
Total liabilities	\$ 822.5	\$ —	\$ 822.5	\$ —	\$ 756.1	\$ 66.4

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	December 31, 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	\$ 21.9	\$ —	\$ 21.9	\$ 0.1	\$ 18.0	\$ 3.8	
Mortgage related derivatives	1.3	—	1.3	—	—	1.3	
Total derivatives	23.2	—	23.2	0.1	18.0	5.1	
Total assets	\$ 23.2	\$ —	\$ 23.2	\$ 0.1	\$ 18.0	\$ 5.1	
Financial Liabilities							
Interest rate swap contracts	\$ 21.9	\$ —	\$ 21.9	\$ 0.1	\$ —	\$ 21.8	
Mortgage related derivatives	0.3	—	0.3	—	—	0.3	
Total derivatives	22.2	—	22.2	0.1	—	22.1	
Repurchase agreements	697.6	—	697.6	—	697.6	—	
Total liabilities	\$ 719.8	\$ —	\$ 719.8	\$ 0.1	\$ 697.6	\$ 22.1	

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<i>Derivatives designated as hedges:</i>				
Amount of gain recognized in other comprehensive income (effective portion)	\$ 0.2	\$ —	\$ 0.2	\$ —
Reclassification adjustment for derivatives net (gains) losses included in income	0.2	—	0.2	—
<i>Non-hedging interest rate derivatives:</i>				
Amount of net fee income recognized in other non-interest income	\$ 1.7	\$ 0.5	2.7	1.3
Amount of net gains recognized in mortgage banking revenues	0.5	0.6	5.0	1.0

(8) Capital Stock

The Company had 42,579,590 shares of Class A common stock and 21,981,114 shares of Class B common stock outstanding as of June 30, 2020. The Company had 43,129,085 shares of Class A common stock and 22,117,254 shares of Class B common stock outstanding as of December 31, 2019.

During the six months ended June 30, 2020, the Company issued 19,200 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 \$0.6 million is included in stock-based compensation expense in the accompanying consolidated statements of changes in stockholders' equity.

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On June 11, 2019, the company's board of directors adopted a stock repurchase program where the Company may repurchase up to 2.5 million of its outstanding shares of Class A common stock. During the three months ended June 30, 2020, the Company did not repurchase any shares under the current authorization and there were 1,445,300 shares remaining authorized under the repurchase program. During the six months ended June 30, 2020, we repurchased and retired 1,054,700 shares of our Class A common stock at a total cost of \$31.2 million, including cost and commission, at an average cost of \$29.56 per share. The shares of common stock repurchased during the period represented 42.2% of the total shares available to be repurchased. All other stock repurchases during the six months ended June 30, 2020 and 2019, 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.

(9) Earnings per Common Share

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

The following table sets forth the computation of basic and diluted earnings per share for the three and six month periods ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	\$ 36.7	\$ 37.9	\$ 66.0	\$ 79.5
Weighted average common shares outstanding for basic earnings per share computation	64,004,455	64,504,546	64,397,320	62,419,442
Dilutive effects of stock-based compensation	78,034	202,913	116,566	248,949
Weighted average common shares outstanding for diluted earnings per common share computation	64,082,489	64,707,459	64,513,886	62,668,391
Basic earnings per common share	\$ 0.57	\$ 0.59	\$ 1.02	\$ 1.27
Diluted earnings per common share	\$ 0.57	\$ 0.59	\$ 1.02	\$ 1.27
Anti-dilutive unvested time restricted stock	108,369	761	108,369	108,046

The Company had 296,188 and 147,415 shares of unvested restricted stock as of June 30, 2020 and 2019, respectively, that were not included in the computation of diluted earnings per common share because performance conditions for vesting had not been met.

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(10) Regulatory Capital

As of June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019 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)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>June 30, 2020</i>								
Total risk-based capital:								
Consolidated	\$ 1,600.1	14.76%	\$ 867.6	8.000%	\$ 1,138.7	10.50%	\$ 1,084.4	10.00%
FIB	1,404.5	12.99	865.0	8.000	1,135.3	10.50	1,081.2	10.00
Tier 1 risk-based capital:								
Consolidated	1,393.1	12.85	650.7	6.000	921.8	8.50	867.6	8.00
FIB	1,297.4	12.00	648.7	6.000	919.0	8.50	865.0	8.00
Common equity tier 1 risk-based capital:								
Consolidated	1,309.0	12.07	488.0	4.500	759.1	7.00	704.9	6.50
FIB	1,297.4	12.00	486.5	4.500	756.8	7.00	702.8	6.50
Leverage capital ratio:								
Consolidated	1,393.1	9.22	604.6	4.000	604.6	4.00	755.8	5.00
FIB	1,297.4	8.60	603.4	4.000	603.4	4.00	754.3	5.00

In connection with the adoption of ASC 326, we recognized an after-tax cumulative effect reduction to retained earnings totaling \$24.1 million. In March 2020, the Office of the Comptroller of Currency, the Board of Governors of the Federal Reserve System, and the FDIC issued an interim final rule that allows banking organizations to mitigate the effects of ASC 326 on their regulatory capital computations. This interim rule is in addition to the three-year transition period already in place under the capital transition rule previously issued in February 2019. Banking organizations can elect to mitigate the estimated cumulative regulatory capital effects for an additional two years. This rule allows an institution to defer transitioning the impact of ASC 326 into its regulatory capital calculation, including ratios, over an extended period. Additionally, the interim rule extends the transition period whereby an institution can defer the impact from ASC 326 on the current period, determined based on the difference between the new ASC 326 allowance for credit losses and the allowance for loan losses under the incurred loss method from previous GAAP, for up to two years. The total impact related to ASC 326 would then be transitioned into regulatory capital and the associated ratios over a three-year transition period, beginning after the initial two-year deferral period, for a total transition period of five years. The Company has elected to opt into the transition election and is adopting transition relief over the permissible five-year period.

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	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)	
<i>December 31, 2019</i>	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital:								
Consolidated	\$ 1,495.3	14.10%	\$ 848.5	8.00%	\$ 1,113.6	10.50%	\$ 1,060.6	10.00%
FIB	1,321.4	12.50	845.8	8.00	1,110.1	10.50	1,057.2	10.00
Tier 1 risk-based capital:								
Consolidated	1,422.3	13.41	636.3	6.00	901.5	8.50	848.5	8.00
FIB	1,248.4	11.81	634.3	6.00	898.6	8.50	845.8	8.00
Common equity tier 1 risk-based capital:								
Consolidated	1,338.2	12.62	477.3	4.50	742.4	7.00	689.4	6.50
FIB	1,248.4	11.81	475.7	4.50	740.0	7.00	687.2	6.50
Leverage capital ratio:								
Consolidated	1,422.3	10.13	561.6	4.00	561.6	4.00	702.0	5.00
FIB	1,248.4	8.91	560.4	4.00	560.4	4.00	700.4	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 company and has presented the ratios as if they also applied on a consolidated basis.

(11) 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 June 30, 2020, the Company had commitments under construction contracts of \$7.0 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 \$1.1 million of sold residential mortgage loans with recourse provisions still in effect as of June 30, 2020.

(12) Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a client 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. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party.

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The following table presents our financial instruments with off-balance sheet risk, as well as the activity in the allowance for off-balance sheet credit losses related to those financial instruments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Beginning balance	\$ 2.1	\$ —	\$ —	\$ —
Initial impact of adopting ASC 326	—	—	2.3	—
Provision for credit loss expense	0.2	—	—	—
Ending balance of allowance for off-balance sheet credit losses	\$ 2.3	\$ —	\$ 2.3	\$ —

	June 30, 2020	December 31, 2019
Unused credit card lines*	\$ 692.5	\$ 671.8
Commitments to extend credit*	2,228.8	2,067.0
Standby letter of credit	55.7	42.7

* In conjunction with the adoption of ASC 326, the Company presented the December 31, 2019 balances to conform to the June 30, 2020 presentation.

(13) 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	
	2020	2019	2020	2019	2020	2019
<i>Three Months Ended June 30,</i>						
Investment securities available-for sale:						
Change in net unrealized gains during period	\$ 34.9	\$ 20.2	\$ 9.5	\$ 5.1	\$ 25.4	\$ 15.1
Unrealized loss on derivatives	0.2	—	—	—	0.2	—
Defined benefits post-retirement benefit plan:						
Change in net actuarial gains	(0.2)	(0.2)	—	—	(0.2)	(0.2)
Total other comprehensive income	\$ 34.9	\$ 20.0	\$ 9.5	\$ 5.1	\$ 25.4	\$ 14.9

	Pre-tax		Tax Expense (Benefit)		Net of Tax	
	2020	2019	2020	2019	2020	2019
<i>Six Months Ended June 30,</i>						
Investment securities available-for sale:						
Change in net unrealized gains during period	\$ 74.1	\$ 53.8	\$ 19.8	\$ 14.0	\$ 54.3	\$ 39.8
Reclassification adjustment for securities transferred from held-to-maturity to available-for-sale	—	(6.0)	—	(1.6)	—	(4.4)
Unrealized loss on derivatives	0.2	—	—	—	0.2	—
Defined benefits post-retirement benefit plan:						
Change in net actuarial gains	(0.4)	(0.3)	(0.1)	—	(0.3)	(0.3)
Total other comprehensive income	\$ 73.9	\$ 47.5	\$ 19.7	\$ 12.4	\$ 54.2	\$ 35.1

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

	June 30, 2020	December 31, 2019
Net unrealized gains on investment securities available-for-sale	\$ 65.3	\$ 10.6
Net unrealized loss on derivatives	(0.2)	—
Net actuarial gains on defined benefit post-retirement benefit plans	0.1	0.4
Net accumulated other comprehensive gains	\$ 65.2	\$ 11.0

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS***(Dollars in millions, except share and per share data)***(14) 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. There have been no significant changes in the valuation techniques during the three and six months ended June 30, 2020 and 2019.

The Company's policy is to recognize transfers between levels as of the end of the reporting period. Transfers in and out of Level 1, Level 2 and Level 3 are recognized on the actual transfer date. There were no transfers between fair value hierarchy levels during the three and six months ended June 30, 2020 and 2019.

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 three-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.

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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:

As of June 30, 2020	Balance	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment debt securities available-for-sale:				
U.S. Treasury Notes	\$ 10.1	\$ —	\$ 10.1	\$ —
State, county and municipal securities	124.2	—	124.2	—
Obligations of U.S. government agencies	265.5	—	265.5	—
U.S. agencies mortgage-backed securities & collateralized mortgage obligations	2,609.6	—	2,609.6	—
Private mortgage-backed securities	31.1	—	31.1	—
Corporate securities	275.9	—	275.9	—
Other investments	1.2	—	1.2	—
Loans held for sale	169.9	—	169.9	—
Derivative assets:				
Interest rate swap contracts	62.5	—	62.5	—
Interest rate lock commitments	9.8	—	9.8	—
Derivative liabilities:				
Interest rate swap contracts	62.7	—	62.7	—
Forward loan sale contracts	3.7	—	3.7	—
Deferred compensation plan assets	18.0	—	18.0	—
Deferred compensation plan liabilities	18.0	—	18.0	—

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		Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
As of December 31, 2019	Balance				
Investment debt securities available-for-sale:					
U.S. Treasury notes	\$ 9.0	\$ —	\$ 9.0	\$ —	
State, county and municipal securities	80.9	—	80.9	—	
Obligations of U.S. government agencies	366.8	—	366.8	—	
U.S. agencies mortgage-backed securities & collateralized mortgage obligations	2,317.2	—	2,317.2	—	
Private mortgage-backed securities	47.2	—	47.2	—	
Corporate securities	135.7	—	135.7	—	
Other investments	3.2	—	3.2	—	
Loans held for sale	100.9	—	100.9	—	
Derivative assets:					
Interest rate swap contracts	21.9	—	21.9	—	
Interest rate lock commitments	1.3	—	1.3	—	
Derivative liabilities					
Interest rate swap contracts	21.9	—	21.9	—	
Forward loan sales contracts	0.3	—	0.3	—	
Deferred compensation plan assets	18.2	—	18.2	—	
Deferred compensation plan liabilities	18.2	—	18.2	—	

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

<i>As of June 30, 2020</i>	Balance	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans*	\$ 6.2	\$ —	\$ —	\$ 6.2
Other real estate owned	1.4	—	—	1.4
Long-lived assets to be disposed of by sale	5.0	—	—	5.0

<i>As of December 31, 2019</i>	Balance	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans*	\$ 27.6	\$ —	\$ —	\$ 27.6
Other real estate owned	2.2	—	—	2.2
Long-lived assets to be disposed of by sale	6.2	—	—	6.2

*The Company adopted ASC 326 as of January 1, 2020 which changes the methodology of impaired loans. The comparable period presents impaired loans under previously applicable GAAP.

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Collateral dependent Loans. Collateral dependent loans are reported at the fair value of the underlying collateral if repayment is expected solely from collateral. The collateral dependent loans are reported at fair value through specific valuation allowance allocations. In addition, when it is determined that the fair value of a collateral dependent 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 credit losses. Collateral values are estimated using independent appraisals and management estimates of current market conditions. As of June 30, 2020, certain collateral dependent loans with a carrying value of \$12.5 million were reduced by specific valuation allowance allocations of \$6.3 million with no material loan charge-offs resulting in a reported fair value of \$6.2 million. As of December 31, 2019, certain impaired loans with a carrying value of \$41.3 million were reduced by specific valuation allowance allocations of \$3.6 million and partial loan charge-offs of \$10.1 million resulting in a reported fair value of \$27.6 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 credit 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 zero and \$0.4 million of write downs on OREO properties during the six months ended June 30, 2020 and 2019, 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 June 30, 2020, the Company had long-lived assets to be disposed of by sale with carrying values aggregating \$5.2 million, which was reduced by write-downs of \$0.2 million, resulting in a fair value of \$5.0 million. As of December 31, 2019, the Company had long-lived assets to be disposed of by sale with carrying values aggregating \$6.4 million, reduced by write-downs of \$0.2 million, resulting in a fair value of \$6.2 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		Valuation Technique	Unobservable Inputs	Range (Weighted Average)		
	June 30, 2020	December 31, 2019					
Collateral dependent loans	\$ 6.2	\$ 27.6	Appraisal	Appraisal adjustment	0%	- 56%	(22%)
Other real estate owned	1.4	2.2	Appraisal	Appraisal adjustment	8%	- 65%	(27%)
Long-lived assets to be disposed of by sale	5.0	6.2	Appraisal	Appraisal adjustment	0%	- 37%	(3%)

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.

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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:

As of June 30, 2020	Carrying Amount	Estimated Fair Value	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$ 1,425.0	\$ 1,425.0	\$ 1,425.0	\$ —	\$ —
Investment debt securities available-for-sale	3,317.6	3,317.6	—	3,317.6	—
Investment debt securities held-to-maturity	67.9	71.1	—	71.1	—
Accrued interest receivable	56.5	56.5	—	56.5	—
Mortgage servicing rights, net	24.6	24.6	—	24.6	—
Loans held for sale	169.9	169.9	—	169.9	—
Net loans held for investment	9,886.4	9,805.2	—	9,799.0	6.2
Derivative assets	72.3	72.3	—	72.3	—
Deferred compensation plan assets	18.0	18.0	—	18.0	—
Total financial assets	\$ 15,038.2	\$ 14,960.2	\$ 1,425.0	\$ 13,529.0	\$ 6.2
Financial liabilities:					
Total deposits, excluding time deposits	\$ 12,127.8	\$ 12,127.8	\$ 12,127.8	\$ —	\$ —
Time deposits	1,212.6	1,218.0	—	1,218.0	—
Securities sold under repurchase agreements	756.1	756.1	—	756.1	—
Accrued interest payable	8.8	8.8	—	8.8	—
Long-term debt	112.3	110.3	—	110.3	—
Subordinated debentures held by subsidiary trusts	86.9	81.1	—	81.1	—
Derivative liabilities	66.4	66.4	—	66.4	—
Deferred compensation plan liabilities	18.0	18.0	—	18.0	—
Total financial liabilities	\$ 14,388.9	\$ 14,386.5	\$ 12,127.8	\$ 2,258.7	\$ —

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As of December 31, 2019	Fair Value Measurements at Reporting Date Using				
	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	\$ 1,076.8	\$ 1,076.8	\$ 1,076.8	\$ —	\$ —
Investment debt securities available-for-sale	2,960.0	2,960.0	—	2,960.0	—
Investment debt securities held-to-maturity	92.3	94.5	—	94.5	—
Accrued interest receivable	46.7	46.7	—	46.7	—
Mortgage servicing rights, net	30.2	34.8	—	34.8	—
Loans held for sale	100.9	100.9	—	100.9	—
Net loans held for investment	8,857.7	8,930.7	—	8,906.7	24.0
Derivative assets	23.2	23.2	—	23.2	—
Deferred compensation plan assets	18.2	18.2	—	18.2	—
Total financial assets	\$ 13,206.0	\$ 13,285.8	\$ 1,076.8	\$ 12,185.0	\$ 24.0
Financial liabilities:					
Total deposits, excluding time deposits	\$ 10,213.5	\$ 10,213.5	\$ 10,213.5	\$ —	\$ —
Time deposits	1,450.0	1,446.6	—	1,446.6	—
Securities sold under repurchase agreements	697.6	697.6	—	697.6	—
Accrued interest payable	12.1	12.1	—	12.1	—
Long-term debt	13.9	10.4	—	10.4	—
Subordinated debentures held by subsidiary trusts	86.9	81.3	—	81.3	—
Derivative liabilities	22.2	22.2	—	22.2	—
Deferred compensation plan liabilities	18.2	18.2	—	18.2	—
Total financial liabilities	\$ 12,514.4	\$ 12,501.9	\$ 10,213.5	\$ 2,288.4	\$ —

(15) Long-Term Debt

In May 2020, the Company issued \$100.0 million of subordinated notes due May 15, 2030. The subordinated notes were issued with a fixed-to-floating rate of 5.25% and an effective rate of 5.33%, due to issuance costs.

(16) Recent Authoritative Accounting Guidance

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. A prospective transition approach is required for debt securities for which other-than-temporary impairment was recognized before the effective date.

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On January 1, 2020, the Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. The adoption of ASU 2016-13 resulted in an increase in the allowance for loan losses as a result of changing from the “incurred loss” model, which encompassed allowances for current known and inherent losses within the portfolio, to the “expected loss” model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The amendments, as applied to our debt securities, had no material impact. The amendments were applied through a cumulative-effect adjustment to retained earnings of \$24.1 million as of January 1, 2020. The transition adjustment included an increase in the allowance for credit losses on loans of \$30.0 million and an increase in the allowance for credit losses on off-balance sheet credit exposures of \$2.3 million, net of the corresponding increases in deferred tax assets of \$8.2 million.

The Company adopted ASC 326 using the prospective transition approach for PCD financial assets, previously classified as purchased credit impaired, or PCI, and accounted for under ASC 310-30. In accordance with the standard, the Company did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. The remaining discount on the PCD assets was determined to be related to noncredit factors and will be accreted into interest income on a level-yield method over the life of the loans.

The Company has elected to opt into the transition election to mitigate the effects of ASC 326 on the regulatory capital ratios relative to recent legislation in relief of COVID-19 pandemic on the economy and financial institutions in the United States. The referenced relief allows a total five-year phase in of the CECL impact on capital and relief over the next two years for the impact on the allowance for credit losses resulting from COVID-19. Refer to “Note 10 - Regulatory Capital” for additional details of the election.

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. The amendments in this Update became effective for the Company on January 1, 2020, and as the amendment is a revision to the disclosure requirements did not have a significant impact on the Company’s consolidated financial statements, results of operations, or liquidity.

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.

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

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. The amendments in this Update became effective for the Company on January 1, 2020 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 the amendments of ASU 2019-04 became effective upon adoption of ASU 2016-13.

(17) Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date financial statements were filed with the SEC. On July 24, 2020, the Company declared a quarterly dividend to common shareholders of \$0.34 per share, to be paid on August 17, 2020 to shareholders of record as of August 7, 2020.

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, 2019, 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” are 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 conditions, disease, outbreaks, viruses, wide-spread health emergencies, pandemics, and other adverse biological conditions (including the recent outbreak of COVID-19, or other adverse conditions that may impact our business and our clients’ business); actions taken by the Board of Governors of the Federal Reserve including changes in the interest rate environment or interest rate changes and other changes to monetary policy; the effect of the various actions taken by the US government in response to the COVID-19 pandemic; credit performance of our loan portfolio; adequacy of the allowance for credit losses and access to low-cost funding sources; our ability to achieve the projected cost savings from our acquisitions and do so in the time expected; operating costs, customer loss and business disruption following our acquisitions may be greater than expected; the unavailability of LIBOR; impairment of goodwill; dependence on our management team and ability to attract and retain qualified employees; disruptions to our workforce, including as a result of COVID-19 or other political, legal, regulatory, and general economic or business conditions, could adversely affect our business; governmental regulation and changes in regulatory, tax and accounting rules and interpretations; regulatory actions related to, and interpretations of, risk-based capital guidelines; the effect of banking and financial services reform; future FDIC insurance premium increases; CFPB restrictions on our ability to originate and sell mortgage loans; cyber-security risks, including a failure or breach of our operational or security systems or infrastructure, that could adversely affect our business, financial performance and reputation; currency fluctuations that impact the value of the U.S. dollar in global markets; management distraction and costs associated with defending against, and unfavorable resolution with respect to, significant litigation, including class action litigation, and regulatory proceedings; inability to meet liquidity requirements; 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 acquisitions or achieve expected costs savings or revenue growth associated with 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 our common stock; decline in market price and volatility of our 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 our indebtedness.

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, 2019. 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, 2019.

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 our 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 decision 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 June 30, 2020, we had consolidated assets of \$16.5 billion, deposits of \$13.3 billion, loans of \$10.0 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 clients 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 credit 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, bankers 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 clients, 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 continue to evaluate bank acquisitions and other strategic opportunities on an on-going basis. The Company adopted CECL on January 1, 2020.

In December 2019, a new strain of coronavirus originated in Wuhan, China, and quickly spread to infect many people in the city and surrounding area. In many cases COVID-19 causes severe illness and even death in a significant minority of cases. Since its emergence COVID-19 has spread throughout the world, including the United States and Europe, significantly impacting the entire world's economies. Most industrialized economies have responded to the COVID-19 pandemic by shutting down significant portions of their economy.

On March 10, 2020, the World Health Organization, declared COVID-19 a pandemic. The COVID-19 pandemic has caused significant volatility and negative pressure in financial markets throughout the world. The global impact of the pandemic has been rapidly evolving and many countries, including the United States, have reacted by instituting a wide variety of control measures including states of emergency, mandatory quarantines, required business and school closures, implementing state-wide "shelter in place" orders and restricting travel. The United States government has taken a number of actions to mitigate the impact of the COVID-19 pandemic on the U.S. economy. Among other steps taken, on March 15, 2020, the Federal Reserve cut the federal funds rate, lowered the interest rate on emergency lending at the discount window, and lengthened the term of loans to 90 days. On March 27, 2020, the CARES Act was signed into law. Key provisions of the CARES Act include one-time payments to individuals, strengthened unemployment insurance, additional health-care funding, loans and grants to certain businesses, and temporary amendments to the Internal Revenue Code. The Small Business Administration was tapped to lead the effort to loan funds to small businesses, in conjunction with banks. The Federal Reserve and the U.S. Treasury have also responded with lending programs under the CARES Act. Further, the Federal Reserve has intervened with a number of credit facilities intended to keep the capital markets liquid.

The CARES Act created a new guaranteed, unsecured loan program under the SBA, called the Payroll Protection Program, or the PPP, which the Company participates in, designed to provide a direct incentive for sole proprietors, independent contractors, self-employed persons, non-profits, and small businesses with less than 500 employees, allowing for narrow exceptions with businesses greater than 500 employees, to keep their workers on the payroll during the pandemic period. Nearly \$660 billion in funds have been authorized for the PPP through two phases, which the SBA will use to guarantee 100% of the amounts loaned under the PPP by lenders to eligible small businesses, nonprofits, veterans' organizations, and tribal businesses. These loans will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, or utilities as long as at least 75% of the forgiven amount was used for payroll. Additionally, loan payments will also be deferred for six months. The Program started on April 3, 2020 and is available through August 8, 2020, or as long as the appropriated funding is available. No collateral or personal guarantees were required. These loans have a two-year or five-year term and will earn interest at a rate of 1%. The Company is actively participating in assisting our customers with applications for resources through the program and approved more than 11,400 applications, for approximately \$1.2 billion, as of July 17, 2020.

The CARES Act permits financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 and is intended to provide interpretive guidance as to conditions that would constitute a short-term modification that would not meet the definition of a TDR. This includes the following (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The Company is applying this guidance to qualifying loan modifications and, as of July 31, 2020, we had existing modifications on approximately 1,300 loans totaling approximately \$409.1 million. Approximately 1,100 loans totaling \$293.4 million were still in the first 90 day deferral period of which approximately 45% had made a payment within that period and approximately 200 loans totaling \$115.7 million began a second 90 day deferral period. The Company anticipates that it will continue to experience an increase in short-term modifications. Additionally, as of July 31, 2020, the Company currently has forbearance requests granted on approximately 68 residential mortgage loans totaling \$22.4 million.

The COVID-19 pandemic has triggered a period of material global economic slowdown. Management continues to actively work to minimize the current and future impact of this unprecedented situation, making adjustments to operations where appropriate or necessary to try to minimize the impact of COVID-19. The extent to which COVID-19 impacts the Company's financial results remains fluid and continues to depend on a number of things including the extent of the spread of the virus, the rate of infection, the severity of illness and the degree of lethality, the relative effect on various portions of the population, the measures taken to combat the virus and their effectiveness, the effect on international trade of any measures taken to combat the virus, any action taken (such as the lowering of interest rates) by government entities to combat the negative macroeconomic effects of these measures, the timing and availability of any treatments or vaccines for the virus, any possible resurgence of the COVID-19 virus after the initial outbreak, and other factors.

In the first and second quarters of 2020, the expected worsening of the US economy and significant uncertainty due to the COVID-19 pandemic coupled with the adoption of CECL were the primary drivers of the increases in our allowance for credit losses. For more information on our allowance for credit losses, see "Financial Condition - Allowance for Credit Losses" included herein. See "Part II-Item 1A. Risk Factors" for additional information regarding risks and the significant uncertainties relating to the COVID-19 pandemic.

Management continues to monitor the impact of COVID-19 on the Company's financial results. The COVID-19 pandemic has affected our operations and has had varying degrees of disruptions and restrictions to our borrowers and to our borrowers' supply chains, closures of some facilities, and decreases in demand for certain products and services. While the long-term impact of the spread of COVID-19 remains uncertain, the Company's financial results, to date, have not incurred a significant impact on our operations. Recent increases in the spread of COVID-19 in multiple regions across the United States has signaled that the scope, duration, and severity of the pandemic is not yet fully known. As a result, there continues to be uncertainty as to the long-term effect on the economy and the Company.

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 client 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 credit 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 credit 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 credit 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 client 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, 2019.

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 Credit Losses

The allowance for credit losses is a valuation account that creates an allowance for credit losses expected over the life of the loans at each balance sheet date and is deducted from or added to the loans’ amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off loans and expected to be charged-off loans. The allowance for credit losses represents management’s estimate of expected credit losses in the loan portfolio expected over the life of the loan, including the incorporation of a one-year forecast period for economic conditions.

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 that does not share common risk characteristics with other loans. Based on this analysis, we record a provision for credit losses in order to maintain the allowance for credit losses at appropriate levels. In determining the allowance for credit losses, management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental and economic conditions, such as changes in unemployment rates, property values, or other relevant factors. The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist.

For non-PCD loans acquired in a business combination with no significant evidence of credit deterioration since origination, the Company estimates an allowance for credit losses of the loans determined using the same methodology as other loans held for investment.

Increases in the allowance are recorded through net income as credit loss expense. Decreases in the allowance are recorded through net income as a reversal of credit loss expense. Loans are charged off against the allowance for credit losses when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off loans.

The allowance for credit losses is maintained at an amount we believe is sufficient to provide for estimated losses expected over the life of the loans at each balance sheet date resulting from management’s assessment of the quantitative and qualitative factors utilized to determine the allowance for credit losses. Management monitors qualitative and quantitative trends in the loan portfolio, including changes in the levels of past due, internally classified, and non-performing loans. Changes in the 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.

As of January 1, 2020, the Company’s accounting policies have changed significantly with the adoption of ASU 326. Prior years were not restated. Prior to January 1, 2020, general allowances and nonspecific allowances were based on incurred credit losses. Note 1 of the “Notes to Unaudited Consolidated Financial Statements” included in Part I, Item 1 of this report describes the methodology used to determine the allowance for credit losses and describes our policy with regard to acquired loans. Note 5 of the “Notes to Unaudited Consolidated Financial Statements” included in Part I, Item 1 of this report includes a discussion of the factors driving changes in the amount of the allowance for credit 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, 2019 describes our accounting policy with regard to goodwill.

Our annual goodwill impairment test is performed each year as of July 1st. As a result of the deterioration in economic conditions caused by the spread of the COVID-19 pandemic across the globe, including into the United States, and its impact on our businesses including volatility in the stock market and changes to the interest rate environment an impairment triggering event has occurred. As of June 30, 2020, we do not consider our goodwill to be impaired. We will continue to monitor the COVID-19 situation and related stock market effects.

Fair Values of Loans Acquired in Business Combinations

Loans acquired in business combinations are initially recorded at fair value as adjusted for credit risk and an allowance for credit losses at the date of acquisition. 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, or PCD loans, are accounted for in accordance with Accounting Standards Codification ("ASC") Topic 326-20 "Financial instruments - credit losses." Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest. An allowance for credit losses is recognized by estimating the expected credit losses of the purchased asset and recording an adjustment to the acquisition date fair value to establish the initial amortized cost basis of the asset. Differences between the established fair value, or amortized cost basis, and the unpaid principal balance of the asset is considered to be a non-credit discount/premium and is accreted/amortized into interest income using the interest method in accordance with ASC 310-10. Subsequent changes to the allowance for credit losses are recorded through provision expense using the same methodology as other loans held for investment.

Note 1 of the "Notes to Unaudited Consolidated Financial Statements" included in Part I, Item 1 of this report describes our 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.

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					
	June 30, 2020			June 30, 2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<i>Interest earning assets:</i>						
Loans ^{(1) (2)}	\$ 9,949.6	\$ 112.4	4.54%	\$ 8,948.3	\$ 121.2	5.43%
Investment securities ⁽²⁾	3,017.7	16.4	2.19	2,703.4	16.4	2.43
Interest bearing deposits in banks	1,068.1	0.5	0.19	728.7	5.0	2.75
Federal funds sold	0.1	—	—	0.8	—	—
Total interest earning assets	\$ 14,035.5	\$ 129.3	3.71%	\$ 12,381.2	\$ 142.6	4.62%
Non-earning assets	1,757.9			1,838.4		
Total assets	\$ 15,793.4			\$ 14,219.6		
<i>Interest bearing liabilities:</i>						
Demand deposits	\$ 3,563.5	\$ 0.4	0.05%	\$ 3,033.5	\$ 2.7	0.36%
Savings deposits	3,874.5	0.3	0.03	3,443.9	5.6	0.65
Time deposits	1,263.1	3.8	1.21	1,507.0	5.8	1.54
Repurchase agreements	696.5	0.1	0.06	695.8	1.1	0.63
Long-term debt	64.8	1.0	6.21	15.8	0.4	10.15
Subordinated debentures held by subsidiary trusts	86.9	0.7	3.24	86.9	1.2	5.54
Total interest-bearing liabilities	\$ 9,549.3	\$ 6.3	0.27%	\$ 8,782.9	\$ 16.8	0.77%
Non-interest-bearing deposits	4,062.9			3,317.8		
Other non-interest-bearing liabilities	210.4			211.1		
Stockholders' equity	1,970.8			1,907.8		
Total liabilities and stockholders' equity	\$ 15,793.4			\$ 14,219.6		
Net FTE interest income		\$ 123.0			\$ 125.8	
Less FTE adjustments ⁽²⁾		(0.5)			(0.5)	
Net interest income from consolidated statements of income		\$ 122.5			\$ 125.3	
Interest rate spread			3.44%			3.85%
Net FTE interest margin ⁽³⁾			3.52%			4.08%
Cost of funds, including non-interest-bearing demand deposits ⁽⁴⁾			0.19%			0.56%

⁽¹⁾ Average loan balances include mortgage loans held for sale and 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)

	Six Months Ended					
	June 30, 2020			June 30, 2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<i>Interest earning assets:</i>						
Loans ^{(1) (2)}	\$ 9,472.4	\$ 224.8	4.76%	\$ 8,708.0	\$ 232.9	5.39%
Investment securities ⁽²⁾	3,039.6	34.2	2.26	2,667.0	32.2	2.43
Interest bearing deposits in banks	886.6	3.0	0.68	664.0	8.6	2.61
Federal funds sold	0.2	—	—	0.7	—	—
Total interest earning assets	\$ 13,398.8	\$ 262.0	3.92%	\$ 12,039.7	\$ 273.7	4.58%
Non-earning assets	1,728.2			1,690.3		
Total assets	15,127.0			\$ 13,730.0		
<i>Interest bearing liabilities:</i>						
Demand deposits	\$ 3,413.2	\$ 1.3	0.08%	\$ 2,992.7	\$ 5.1	0.34%
Savings deposits	3,740.8	1.7	0.09	3,341.3	10.7	0.65
Time deposits	1,323.8	8.8	1.33	1,432.1	10.4	1.46
Repurchase agreements	667.9	0.6	0.18	685.7	2.1	0.62
Other borrowed funds	0.3	—	—	—	—	—
Long-term debt	39.3	1.3	6.63	15.7	0.7	8.99
Subordinated debentures held by subsidiary trusts	86.9	1.7	3.92	86.9	2.4	5.57
Total interest-bearing liabilities	\$ 9,272.2	\$ 15.4	0.33%	\$ 8,554.4	\$ 31.4	0.74%
Non-interest-bearing deposits	3,673.4			3,184.1		
Other non-interest-bearing liabilities	199.2			180.1		
Stockholders' equity	1,982.2			1,811.4		
Total liabilities and stockholders' equity	\$ 15,127.0			\$ 13,730.0		
Net FTE interest income	\$ 246.6			\$ 242.3		
Less FTE adjustments ⁽²⁾	(1.0)			(1.0)		
Net interest income from consolidated statements of income	\$ 245.6			\$ 241.3		
Interest rate spread			3.59%			3.84%
Net FTE interest margin ⁽³⁾			3.69%			4.06%
Cost of funds, including non-interest-bearing demand deposits ⁽⁴⁾			0.24%			0.54%

⁽¹⁾ Average loan balances include mortgage loans held for sale and 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 decreased \$2.8 million, or 2.2%, to \$122.5 million during the three months ended June 30, 2020, as compared to \$125.3 million for the same period in 2019. The decrease was primarily the result of lower yields on interest earning assets largely related to the March 2020 decrease in the Fed Funds rate, along with lower levels of charged-off interest recoveries and interest accretion related to the fair value of acquired loans, which was largely offset by the addition of \$8.6 million of interest income from PPP loans. Net interest income increased \$4.3 million, or 1.8%, to \$245.6 million during the six months ended June 30, 2020, as compared to \$241.3 million for the same period in 2019. The increase is primarily attributable to the full impact of the IIBK and CMYF acquisitions, organic growth, and \$8.6 million of interest income from PPP loans partially offset by the result of lower yields on interest earning assets largely related to the March 2020 decrease in the Fed Funds rate, along with lower levels of charged-off interest recoveries and interest accretion related to the fair value of acquired loans, which was during the six months ended June 30, 2020.

Net interest income included interest accretion related to the fair valuation of acquired loans of \$3.0 million during the three months ended June 30, 2020, of which \$1.1 million was the result of early loan payoffs, and \$6.8 million during the six months ended June 30, 2020, of which \$2.2 million was the result of early loan payoffs. This compares to interest accretion of \$5.2 million during the three months ended June 30, 2019, of which \$2.6 million was the result of early loan payoffs, and \$9.2 million during the six months ended June 30, 2019, of which \$4.4 million was the result of early loan payoffs.

There were no material recoveries of previously charged-off interest included in net interest income for the three months ended June 30, 2020 and \$0.2 million during the six months ended June 30, 2020, as compared to \$1.5 million and \$2.4 million during the same period in 2019.

Our net FTE interest margin ratio decreased 56 basis points to 3.52% for the three months ended June 30, 2020, as compared to 4.08% for the same period in 2019. Similarly, our net FTE interest margin ratio decreased 37 basis points to 3.69% for the six months ended June 30, 2020, as compared to 4.06% for the same period in 2019. The decreases in net FTE interest margin ratio during the three months ended June 30, 2020, as compared to the same period in 2019, and during the six months ended June 30, 2020, as compared to the same period in 2019 were primarily the result of lower yields on interest earning assets as a result of the impact of the reduction in the federal funds rate, significant PPP loan balances at low yields, higher cash balances, and interest on long-term debt partially offset by lower deposit 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 3.44% during the three months ended June 30, 2020, as compared to 3.86% for the same period in 2019, or a 42 basis point decrease, and 3.59% during the six months ended June 30, 2020, as compared to 3.86% in the same period in 2019, or a 27 basis point decrease, primarily the result of lower yields on interest earning assets as a result of the impact of the reduction in the federal funds rate, significant PPP loan balances at low yields, higher cash balances, and interest on long-term debt partially offset by lower deposit costs.

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 six month periods ended June 30, 2020 and 2019. 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 June 30, 2020 compared with Three Months Ended June 30, 2019			Six Months Ended June 30, 2020 compared with Six Months Ended June 30, 2019		
	Volume	Rate	Net	Volume	Rate	Net
Interest earning assets:						
Loans ⁽¹⁾	\$ 13.5	\$ (22.3)	\$ (8.8)	\$ 20.6	\$ (28.7)	\$ (8.1)
Investment securities ⁽¹⁾	1.9	(1.9)	—	4.5	(2.5)	2.0
Interest bearing deposits in banks	2.3	(6.8)	(4.5)	2.9	(8.5)	(5.6)
Total change	17.7	(31.0)	(13.3)	28.0	(39.7)	(11.7)
Interest bearing liabilities:						
Demand deposits	0.5	(2.8)	(2.3)	0.7	(4.5)	(3.8)
Savings deposits	0.7	(6.0)	(5.3)	1.3	(10.3)	(9.0)
Time deposits	(0.9)	(1.1)	(2.0)	(0.8)	(0.8)	(1.6)
Repurchase agreements	—	(1.0)	(1.0)	(0.1)	(1.4)	(1.5)
Long-term debt	1.2	(0.6)	0.6	1.1	(0.5)	0.6
Subordinated debentures held by subsidiary trusts	—	(0.5)	(0.5)	—	(0.7)	(0.7)
Total change	1.5	(12.0)	(10.5)	2.2	(18.2)	(16.0)
Increase (decrease) in FTE net interest income ⁽¹⁾	\$ 16.2	\$ (19.0)	\$ (2.8)	\$ 25.8	\$ (21.5)	\$ 4.3

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

Provision for Credit Losses

The Company adopted Accounting Standards Codification 326, Measurement of Credit Losses on Financial Instruments, which replaces the historically used incurred loss methodology with an expected loss methodology and is referred to as the current expected credit loss (CECL) accounting standard, effective January 1, 2020. Upon adoption, the Company recorded an increase in the allowance for credit losses on loans of \$30.0 million and an increase in the allowance for credit losses on off-balance sheet credit exposures of \$2.3 million that was offset in shareholders' equity and deferred taxes. Fluctuations in the provision for credit losses reflect management's estimate of possible credit 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 credit losses of \$19.5 million during the three months ended June 30, 2020, as compared to \$3.8 million during same period in 2019, with the difference largely attributable to the adoption of CECL and the impact of COVID-19. The quarterly provision reflects an increase in expected losses over the life of the loans held for investment associated with significant changes in the Company's internal economic forecast as a result of COVID-19, including uncertainty regarding the benefits of current and potential government stimulus enacted since the prior assessment. The provision is reflective of net charge-offs of \$2.3 million, or an annualized 0.09% of average loans outstanding, for the second quarter of 2020, compared to \$2.0 million, or an annualized 0.09% of average loans outstanding during same period in 2019.

For information regarding our non-performing loans, see "Financial Condition – Non-Performing Assets" included herein. For more information on our allowance for credit losses, see "Financial Condition – Allowance for Credit 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 June 30,				Six Months Ended June 30,			
	2020	2019	\$ Change	% Change	2020	2019	\$ Change	% Change
Payment services revenues	\$ 9.3	\$ 10.5	\$ (1.2)	(11.4)%	\$ 19.5	\$ 19.9	\$ (0.4)	(2.0)%
Mortgage banking revenues*	14.2	9.0	5.2	57.8	25.1	14.2	10.9	76.8
Wealth management revenues	5.4	5.8	(0.4)	(6.9)	11.6	11.9	(0.3)	(2.5)
Service charges on deposit accounts	3.6	5.4	(1.8)	(33.3)	9.0	10.4	(1.4)	(13.5)
Other service charges, commissions and fees*	2.9	1.8	1.1	61.1	5.0	3.5	1.5	42.9
Other income	4.3	5.1	(0.8)	(15.7)	7.9	9.4	(1.5)	(16.0)
Total non-interest income	\$ 39.7	\$ 37.6	\$ 2.1	5.6 %	\$ 78.1	\$ 69.3	\$ 8.8	12.7 %

* Certain reclassifications, none of which were material, have been made to conform 2019 amounts to the 2020 presentation.

Total non-interest income increased \$2.1 million, or 5.6%, to \$39.7 million for the three months ended June 30, 2020, as compared to \$37.6 million for the same period in 2019 and increased \$8.8 million, or 12.7%, to \$78.1 million for the six months ended June 30, 2020, as compared to \$69.3 million for the same period in 2019. Significant components of these fluctuations are discussed below.

Payment services revenues consist of interchange fees that merchants pay for processing electronic payment transactions and ATM service fees. Payment services revenues decreased \$1.2 million, or 11.4%, to \$9.3 million during the three months ended June 30, 2020, as compared to \$10.5 million earned during the same period in 2019. For the six months ended June 30, 2020, payment services revenue decreased \$0.4 million, or 2.0%, to \$19.5 million, as compared to \$19.9 million during the same period in 2019. The decrease in payment services revenues is attributable to decreased consumer spending, largely related to travel expenditures, along with higher levels of spending with merchants that have negotiated lower interchange fees, resulting in decreases in debit card and credit card revenues during the six months ended June 30, 2020.

Mortgage banking revenues include gains on residential real estate loans sold, mortgage servicing revenues and direct costs related to loans sold (including amortization, mortgage servicing rights impairment and other expenses), and origination and processing fees on residential real estate loans held for sale. Mortgage banking revenues increased \$5.2 million, or 57.8%, to \$14.2 million during the three months ended June 30, 2020, as compared to \$9.0 million during the same period in 2019. For the six months ended June 30, 2020, mortgage banking revenues increased \$10.9 million, or 76.8%, to \$25.1 million as compared to \$14.2 million during the same period in 2019. The increases were primarily driven by increased mortgage loan production due to higher levels of refinance activity as a result of the favorable interest rate environment. These increases were partially offset by mortgage servicing impairments of \$2.9 million and \$8.4 million for the three and six months ended June 30, 2020, respectively. As a result of our higher levels of refinancing activity, our overall loan production for originated home purchases was approximately 29.0% and 35.4% of production for the three and six months ended June 30, 2020, respectively, compared to 81.4% and 80.6% for the same periods in 2019.

Service charge fees are primarily driven by service and overdraft charges on deposit accounts. These service charges decreased \$1.8 million, or 33.3%, to \$3.6 million during the three months ended June 30, 2020, as compared to \$5.4 million during the same period in 2019. For the six months ended June 30, 2020, service charges on deposit accounts decreased \$1.4 million, or 13.5%, to \$9.0 million as compared to \$10.4 million during the same period in 2019. The decreases are primarily due to changes in client behavior and the Company waiving continuous overdraft fees and regular overdraft fees for clients receiving U.S. government stimulus checks during the three months ended June 30, 2020.

Other service charges, commissions and fees primarily include fees earned on certain derivative interest rate contracts, insurance commissions, and safe deposit boxes. Other service charges, commissions and fees increased \$1.1 million, or 61.1%, to \$2.9 million during the three months ended June 30, 2020, as compared to \$1.8 million during the same period in 2019. For the six months ended June 30, 2020, other service charges, commissions and fees increased \$1.5 million, or 42.9%, to \$5.0 million as compared to \$3.5 million during the same period in 2019. The increases were primarily due to additional fees earned on derivative interest rate swap contracts offered to clients.

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 June 30,				Six Months Ended June 30,			
	2020	2019	\$ Change	% Change	2020	2019	\$ Change	% Change
Salaries and wages*	\$ 44.2	\$ 40.1	\$ 4.1	10.2 %	\$ 84.1	\$ 75.2	\$ 8.9	11.8 %
Employee benefits	10.4	14.0	(3.6)	(25.7)	24.6	28.4	(3.8)	(13.4)
Outsourced technology services	8.3	8.1	0.2	2.5	16.1	16.0	0.1	0.6
Occupancy, net	6.8	7.1	(0.3)	(4.2)	14.1	14.1	—	—
Furniture and equipment	4.2	3.4	0.8	23.5	7.0	6.9	0.1	1.4
OREO expense, net of income	0.1	0.2	(0.1)	NM	(0.4)	0.3	(0.7)	NM
Professional fees*	3.0	2.6	0.4	15.4	5.7	5.8	(0.1)	(1.7)
FDIC insurance premiums	1.6	1.6	—	—	3.2	3.1	0.1	3.2
Core deposit intangibles amortization	2.7	3.0	(0.3)	(10.0)	5.6	5.3	0.3	5.7
Other expenses*	14.3	16.7	(2.4)	(14.4)	30.6	30.4	0.2	0.7
Acquisition related expenses	—	13.5	(13.5)	(100.0)	—	15.8	(15.8)	(100.0)
Total non-interest expense	\$ 95.6	\$ 110.3	\$ (14.7)	(13.3)%	\$ 190.6	\$ 201.3	\$ (10.7)	(5.3)%

* Certain reclassifications, none of which were material, have been made to conform 2019 amounts to the 2020 presentation.

Non-interest expense decreased \$14.7 million, or 13.3%, to \$95.6 million during the three months ended June 30, 2020 as compared to \$110.3 million during the same period in 2019 and \$10.7 million, or 5.3%, to \$190.6 million during the six months ended June 30, 2020 as compared to \$201.3 million during the same period in 2019. The decreases are mainly a result of decreased acquisition expenses of \$13.5 million during the three months ended June 30, 2020 and \$15.8 million during the six months ended June 30, 2020. 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 \$4.1 million, or 10.2%, to \$44.2 million during the three months ended June 30, 2020, as compared to \$40.1 million during the same period in 2019, as a result of higher mortgage loan originator commissions and higher levels of incentive accruals. Salaries and wages increased \$8.9 million, or 11.8%, to \$84.1 million during the six months ended June 30, 2020 as compared to \$75.2 million during the same period in 2019. The increase reflects higher levels of wages related to additional employees as a result of the IIBK and CMYF acquisitions, higher mortgage loan originator commissions, and higher levels of incentive accruals during the six months ended June 30, 2020.

Employee benefits expense decreased \$3.6 million, or 25.7%, to \$10.4 million during the three months ended June 30, 2020, as compared to \$14.0 million during the same period in 2019. Employee benefits expense decreased \$3.8 million, or 13.4%, to \$24.6 million during the six months ended June 30, 2020 as compared to \$28.4 million during the same period in 2019. These decreases are primarily due to lower health insurance and other employee benefit costs as compared to 2019.

Other expenses primarily include advertising and public relations costs; office supply, postage, freight, telephone and travel expenses; donations expense; debit and credit card expenses; board of director fees; legal expenses; and other losses. Other expenses decreased \$2.4 million, or 14.4%, to \$14.3 million during the three months ended June 30, 2020, as compared to \$16.7 million during the same period in 2019 and increased \$0.2 million, or 0.7%, to \$30.6 million during the six months ended June 30, 2020, as compared to \$30.4 million during the same period in 2019. The decrease during the three months ended June 30, 2020 is primarily the result of lower advertising and travel expenses.

Income Tax Expense

Our effective tax rate was 22.1% for the three months ended June 30, 2020 compared to 22.3% for the three months ended June 30, 2019 and 22.0% for the six months ended June 30, 2020, as compared to 21.9% for the same period in 2019.

Financial Condition

Total Assets

Total assets increased \$1,827.2 million, or 12.5%, to \$16,471.4 million as of June 30, 2020, from \$14,644.2 million as of December 31, 2019, primarily due to an increase in loans held for investment as a result of the PPP loans originated and increases in investment securities and cash and cash equivalents as a result of higher levels of deposits. Significant fluctuations in balance sheet accounts are discussed below.

Loans Held for Investment, net of deferred fees and costs

Loans held for investment, net of deferred fees and costs increased \$1,101.8 million, or 12.3%, to \$10,032.5 million as of June 30, 2020, as compared to \$8,930.7 million as of December 31, 2019. Significant contributing portfolios are discussed in greater detail below:

Total real estate loans increased \$158.7 million, or 2.7%, to \$6,096.9 million as of June 30, 2020, as compared to \$5,938.2 million as of December 31, 2019. Within the portfolio, commercial loans increased \$106.0 million, or 3.0%, to \$3,593.8 million as of June 30, 2020, as compared to \$3,487.8 million as of December 31, 2019. Construction loans increased \$13.6 million, or 1.4%, to \$991.3 million as of June 30, 2020, as compared to \$977.7 million as of December 31, 2019. Residential loans increased \$41.5 million, or 3.3%, to \$1,287.6 million as of June 30, 2020, as compared to \$1,246.1 million as of December 31, 2019, and agricultural loans decreased \$2.4 million, or 1.1%, to \$224.2 million as of June 30, 2020, compared to \$226.6 million as of December 31, 2019.

Total consumer loans decreased \$3.4 million, or 0.3%, to \$1,041.8 million as of June 30, 2020, from \$1,045.2 million as of December 31, 2019. Within the consumer loan portfolio, indirect loans had an increase of \$17.3 million, or 2.2% to \$801.9 million as of June 30, 2020, as compared to \$784.6 million as of December 31, 2019, direct loans decreased \$9.7 million, or 5.4% to \$169.3 million as of June 30, 2020, as compared to \$179.0 million as of December 31, 2019. Credit card loans decreased \$11.0 million, or 13.5%, to \$70.6 million as of June 30, 2020 compared to \$81.6 million as of December 31, 2019, primarily attributable to decreases in spending as a result of COVID-19.

Commercial loans increased \$974.9 million, or 58.2%, to \$2,648.6 million as of June 30, 2020, from \$1,673.7 million as of December 31, 2019, as a result of the \$1.2 billion of PPP loan originations partially offset by pay-downs within the portfolio.

Agricultural loans increased \$3.7 million, or 1.3%, to \$282.8 million as of June 30, 2020, from \$279.1 million as of December 31, 2019, primarily attributable to seasonal draw downs on 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 \$69.0 million, or 68.4%, to \$169.9 million as of June 30, 2020, compared to \$100.9 million as of December 31, 2019. The increase is primarily due to an increase in originations of mortgage loans held for sale as a result of higher levels of refinance activity driven by lower interest rates.

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)	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Non-performing loans:					
Non-accrual loans	\$ 49.9	\$ 51.1	\$ 42.9	\$ 50.1	\$ 41.0
Accruing loans past due 90 days or more	7.7	12.0	5.7	7.0	5.2
Total non-performing loans	57.6	63.1	48.6	57.1	46.2
OREO	6.5	8.2	8.5	17.8	27.6
Total non-performing assets	\$ 64.1	\$ 71.3	\$ 57.1	\$ 74.9	\$ 73.8
Troubled debt restructurings not included above	\$ 3.4	\$ 5.0	\$ 5.5	\$ 5.5	\$ 5.7
Non-performing loans to loans held for investment	0.57%	0.71%	0.54%	0.63%	0.51%
Non-performing assets to loans held for investment and OREO	0.64	0.80	0.64	0.83	0.82
Non-performing assets to total assets	0.39	0.49	0.39	0.51	0.51

Non-performing loans. Non-performing loans include non-accrual loans and loans contractually past due 90 days or more and still accruing interest. Collateral dependent loans include all loans that rely solely on the operation or sale of the collateral for repayment. We monitor and evaluate collateral values on collateral dependent loans quarterly. Appraisals are required on all collateral dependent 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 credit losses as a specific valuation allowance. Provisions for credit losses are impacted by changes in the specific valuation allowances and historical or general valuation elements of the allowance for credit 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

<i>(Dollars in millions)</i>	June 30, 2020	Percent of Total	December 31, 2019	Percent of Total
Real estate:				
Commercial	\$ 13.8	24.0%	\$ 13.6	28.0%
Construction:				
Land acquisition and development	1.0	1.7	1.7	3.5
Residential	0.5	0.9	—	—
Commercial	0.5	0.9	0.5	1.0
Total construction	2.0	3.5	2.2	4.5
Residential	4.3	7.4	5.7	11.7
Agricultural	8.4	14.6	5.2	10.7
Total real estate	28.5	49.5	26.7	54.9
Consumer	3.7	6.4	3.5	7.3
Commercial	21.6	37.5	16.0	32.9
Agricultural	3.8	6.6	2.4	4.9
Total non-performing loans	\$ 57.6	100.0%	\$ 48.6	100.0%

Non-accrual loans. We generally place 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. Non-accrual loans increased approximately \$7.0 million, to \$49.9 million as of June 30, 2020, from \$42.9 million as of December 31, 2019, primarily as a result of the adoption of the CECL standard and corresponding transition from purchase credit impaired loans to purchase credit deteriorated loans. Accruing loans past due 90 days or more increased \$2.0 million, or 35.1%, primarily due to an increase in real estate, commercial, and agricultural loans. Other real estate owned decreased \$2.0 million, or 23.5%, from December 31, 2019.

Allowance for Credit Losses

The Company performs a quarterly assessment of the adequacy of its allowance for credit losses in accordance with GAAP and as modified by the adoption of CECL. The methodology used to assess the adequacy is consistently applied to the Company's loan portfolio. The allowance for credit losses is established through a provision for credit losses based on our evaluation of quantitative and qualitative risk factors in our loan portfolio at each balance sheet date. In determining the allowance for credit losses, we estimate losses on specific loans, or groups of loans, where the expected loss can be identified and reasonably determined. The balance of the allowance for credit losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature or tenure of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current environmental and 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 Credit Losses."

The allowance for credit 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 credit losses consists of three elements:

- (1) Specific valuation allowances associated with collateral dependent 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. Collateral dependent loans without a specific valuation allowance are modeled with the applicable pool and receive the corresponding allowance.

- (2) Historical valuation allowances based on loan loss experience for similar loans with similar characteristics and trends. The Company applies PD and LGD methodologies for all portfolio segments. The Company uses a TM for PD components of the methodology and a historical average for the LGD components of methodology. The PD and LGD is applied to the current principal balance as of the reporting date. The TM determines the PD by tracking the historical movement of loans between loan risk tiers over a defined period of time. Loan transitions are measured by either internal ratings or delinquency status. Those tracked by ratings are generally commercial purpose including agricultural, commercial and commercial real estate. Those tracked by delinquency are generally consumer in nature, with the exception of multi-family and credit cards. The LGD used as the basis for the estimate of credit losses is comprised of the Company's historical loss experiences from 2008 to the current period. The model compares the most recent period losses to prior period defaults to calculate the LGD, which is averaged over the historical observations.
- (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 or forecasts and other qualitative risk factors both internal and external to us, including the incorporation of a one-year forecast period for economic conditions.

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

Loans acquired in business combinations are initially recorded at fair value as adjusted for credit risk and an allowance for credit losses at the date of acquisition. 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. Subsequent to the acquisition date, an allowance for credit loss is recorded for the life of loan expected credit losses on loans acquired without evidence of credit impairment.

For loans acquired in business combinations with evidence of deterioration in credit quality since origination, the Company determines the fair value of the loans by 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. An allowance for credit losses is recognized by estimating the expected credit losses of the purchased asset and recording an adjustment to the acquisition date fair value to establish the initial amortized cost basis of the asset. Differences between the established amortized cost basis, and the unpaid principal balance of the asset is considered to be a non-credit discount/premium and is accreted/amortized into interest income using the level yield interest method. Subsequent changes to the allowance for credit losses are recorded through provision expense using the same methodology as other loans held for investment.

Loans, or portions thereof, are charged-off against the allowance for credit 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 collateral dependent loan is adequately collateralized, a specific valuation allowance is not recorded. As such, significant changes in collateral dependent and non-performing loans do not necessarily correspond proportionally with changes in the specific valuation component of the allowance for credit 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 credit losses or changes in non-performing or collateral dependent loans due to timing differences among the initial identification of a collateral dependent loan, recording of a specific valuation allowance for the collateral dependent loan and any resulting charge-off of uncollectible principal.

The following table sets forth information regarding our allowance for credit losses as of and for the periods indicated.

Allowance for Credit Losses

(Dollars in millions)

	Three Months Ended					
	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	
Allowance for credit losses on loans: ⁽¹⁾						
Beginning balance	\$ 129.1	\$ 73.0	\$ 75.0	\$ 74.2	\$ 72.4	
Initial impact of adopting ASC 326	—	30.0	—	—	—	
Provision charged to operating expense ⁽²⁾	19.3	29.2	3.8	2.6	3.8	
Charge offs:						
Real estate						
Commercial	0.1	—	—	—	—	
Construction	—	0.5	0.1	—	0.6	
Residential	—	—	0.1	0.3	0.3	
Consumer	3.0	3.0	3.9	2.8	3.3	
Commercial	0.9	1.1	3.1	1.6	1.1	
Agricultural	0.1	—	0.1	—	0.3	
Total charge-offs	4.1	4.6	7.3	4.7	5.6	
Recoveries:						
Real estate						
Commercial	0.1	—	—	0.1	0.2	
Construction	—	—	0.1	0.6	0.6	
Residential	0.2	—	0.4	0.1	0.4	
Consumer	0.9	1.1	0.5	0.8	1.2	
Commercial	0.6	0.4	0.5	1.3	1.2	
Total recoveries	1.8	1.5	1.5	2.9	3.6	
Net charge-offs	2.3	3.1	5.8	1.8	2.0	
Balance at end of period	\$ 146.1	\$ 129.1	\$ 73.0	\$ 75.0	\$ 74.2	
Allowance for off-balance sheet credit losses:						
Beginning balance	\$ 2.1	\$ —	\$ —	\$ —	\$ —	
Initial impact of adopting ASC 326	—	2.3	—	—	—	
Provision for off-balance sheet credit losses	0.2	(0.2)	—	—	—	
Balance at end of period	\$ 2.3	\$ 2.1	\$ —	\$ —	\$ —	
Total allowance for credit losses	\$ 148.4	\$ 131.2	\$ 73.0	\$ 75.0	\$ 74.2	
Total provision for credit losses	19.5	29.0	3.8	2.6	3.8	
Loans held for investment	10,032.5	8,918.0	8,930.7	8,992.6	8,995.2	
Average loans	9,949.6	8,995.6	9,041.1	9,053.6	8,948.3	
Net loans charged-off to average loans, annualized	0.09%	0.14%	0.25%	0.08%	0.09%	
Allowance to loans held for investment	1.46	1.45	0.82	0.83	0.82	

⁽¹⁾ Allowance for credit losses on loans ("ACLL") at June 30, 2020 and March 31, 2020; Allowance for loan losses ("ALLL") for the prior periods.

⁽²⁾ Provision for credit losses on loans for the quarters ended June 30, 2020 and March 31, 2020; provision for loan losses for the prior periods.

Our allowance for credit losses was \$146.1 million, or 1.46% of loans held for investment, including PPP loans, as of June 30, 2020, as compared to \$73.0 million, or 0.82% of loans held for investment, as of December 31, 2019. The increase in the percentage from December 31, 2019 is primarily a result of adoption of the CECL standard and changes in the Company's internal economic forecast as a result of COVID-19, including uncertainty regarding the benefits of government stimulus enacted since the initial assessment. The allowance for credit losses represents management's estimate of expected credit losses in the loan portfolio expected over the life of the loan, including the incorporation of a one-year forecast period for economic conditions.

While the allowance for credit losses on loans of 1.46% include the PPP loan balance, the allowance for credit losses does not include a reserve on the 100% Small Business Administration guaranteed PPP loans. The allowance for credit losses on loans as a percentage of period-end loans held for investment would have been 20 basis points higher had the PPP loan balances been excluded at June 30, 2020.

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 \$333.2 million, or 10.9%, to \$3,385.5 million, or 20.6% of total assets, as of June 30, 2020, from \$3,052.3 million, or 20.8% of total assets, as of December 31, 2019. As of June 30, 2020, the estimated duration of our investment portfolio was 1.6 years, as compared to 2.4 years as of December 31, 2019.

We evaluate our available-for-sale debt securities in an unrealized loss position to assess whether we intend to sell, or whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. For available-for-sale debt securities that do not meet the aforementioned criteria, the Company performs a qualitative assessment as to whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

As of June 30, 2020, we had available-for-sale investment securities with fair values aggregating \$37.6 million that had been in a continuous loss position more than twelve months. Gross unrealized losses on these securities of \$0.2 million as of June 30, 2020 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 or credit impairment were recorded during the three months ended June 30, 2020 or 2019.

Other Assets

Other assets increased \$48.7 million, or 26.0%, to \$236.3 million as of June 30, 2020, from \$187.6 million as of December 31, 2019. The increase is primarily attributable to an increase of \$49.0 million in our interest rate swap contracts offset by decreases resulting from normal fluctuations in other assets.

Deposits

Our deposits consist of non-interest-bearing and interest-bearing demand, savings, individual retirement and time deposit accounts. Total deposits increased \$1,676.9 million, or 14.4%, to \$13,340.4 million as of June 30, 2020, from \$11,663.5 million as of December 31, 2019. The increase is primarily attributable to proceeds from PPP loans, new clients acquired as a result of the PPP loan process and higher cash balances of existing clients.

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

Deposits

<i>(Dollars in millions)</i>	June 30, 2020	Percent of Total	December 31, 2019	Percent of Total
Non-interest-bearing demand	\$ 4,426.6	33.2%	\$ 3,426.5	29.4%
Interest bearing:				
Demand	3,665.6	27.5	3,195.4	27.4
Savings	4,035.6	30.3	3,591.6	30.8
Time, \$100 and over	486.2	3.6	651.1	5.6
Time, other ⁽¹⁾	726.4	5.4	798.9	6.8
Total interest bearing	8,913.8	66.8	8,237.0	70.6
Total deposits	\$ 13,340.4	100.0%	\$ 11,663.5	100.0%

⁽¹⁾ Included in Time, other are Certificate of Deposit Account Registry Service, or CDARS, deposits of \$122.6 million and no brokered deposits as of June 30, 2020, compared to \$117.7 million and \$2.9 million as of December 31, 2019, 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 increased \$58.5 million, or 8.4%, to \$756.1 million as of June 30, 2020, from \$697.6 million as of December 31, 2019, as a result of normal fluctuations in account balances.

Deferred Tax Asset / Liability

Our deferred tax liability, net increased \$5.5 million, or 20.6%, to \$32.2 million as of June 30, 2020, from \$26.7 million as of December 31, 2019, primarily due to an increase in our mark-to-market gains partially offset by an increase in our allowance for credit losses as a result of the adoption of ASC 326.

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 decreased \$15.0 million, or 0.7%, to \$1,998.9 million as of June 30, 2020, from \$2,013.9 million as of December 31, 2019, due to stock repurchases related to the stock repurchase program, stock repurchases of vested restricted shares tendered in lieu of cash for payment of income tax withholding amounts by participants, regular and special cash dividends paid, and the cumulative effect of adopting ASC 326, a new accounting principle. This decrease was offset by retention of earnings, other comprehensive income, and proceeds from stock option exercises. For additional information regarding the adoption of ASC 326, see "Note 1 – Basis of Presentation" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report.

On July 24, 2020, the Company's board of directors declared a dividend of \$0.34 per common share, payable on August 17, 2020, to common stockholders of record as of August 7, 2020. The dividend equates to a 4.5% annual yield based on the \$30.54 average closing pricing of the Company's common stock during the second quarter of 2020.

There were no shares repurchased during the three months ended June 30, 2020. During the six months ended June 30, 2020, we repurchased and retired 1,054,700 shares of our Class A common stock at a total cost of \$31.2 million and an average cost of \$29.56 per share. The shares of common stock repurchased during the period represented 42.2% of the total shares to be repurchased under our repurchase program adopted by the Company's board of directors on June 11, 2019 whereby the Company may repurchase up to 2.5 million of its outstanding shares of Class A common stock. As of June 30, 2020, there were 1,445,300 shares remaining authorized under the repurchase program.

As a bank holding company, the Company must comply with the capital requirements established by the Federal Reserve, and our subsidiary Bank must comply with the capital requirements established by the FDIC. The current risk-based guidelines applicable to us and our Bank are based on the Basel III framework, as implemented by the federal bank regulators. As of June 30, 2020 and December 31, 2019, 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 10 – Regulatory Capital" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report.

Liquidity. Liquidity measures our ability to meet current and future cash flow needs on a timely basis and at a reasonable cost. We manage our liquidity position to meet the daily cash flow needs of clients, 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 client 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 June 30, 2020, 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, 2019.

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 June 30, 2020, 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 June 30, 2020 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 June 30, 2020 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, 2019.

Item 1A. Risk Factors

The information presented below updates the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019, as updated in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020. Except as presented below, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019, as updated in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

The impact of the COVID-19 pandemic on our business and financial results will depend on future developments that are uncertain and unpredictable, including the scope and duration of the pandemic, and may be materially adverse to our operations and profitability.

In December 2019, a new strain of coronavirus (also known as, and hereinafter referred to as "COVID-19") originated in Wuhan, China, and quickly spread to infect many people in the city and surrounding area. In many cases COVID-19 causes severe illness and even death in a significant minority of cases. Since its emergence, COVID-19 has spread throughout the world, including the United States and Europe, significantly impacting the entire world's economies. Most industrialized economies have responded to the COVID-19 pandemic by shutting down significant portions of their economy.

The outbreak has been declared a pandemic by the World Health Organization, and the United States government has declared a national emergency in response. The COVID-19 pandemic has caused significant volatility and negative pressure in financial markets throughout the world. The global impact of the pandemic has been rapidly evolving and many countries, including the United States, have reacted by instituting a wide variety of control measures including states of emergency, mandatory quarantines, required business and school closures, implementing state-wide "shelter in place" orders and restricting travel.

The future impact of COVID-19 on the global economy will depend on the extent of the spread of the virus, the rate of infection, the severity of illness and the degree of lethality, the relative effect on various portions of the population, the measures taken to combat the virus and their effectiveness, the effect on international trade of any measures taken to combat the virus, any action taken (such as the lowering of interest rates) by government entities to combat the negative macroeconomic effects of these measures, the timing and availability of any treatments or vaccines for the virus, any possible resurgence of the COVID-19 virus after the initial outbreak, and other factors.

The COVID-19 pandemic has seemingly triggered a period of material global economic slowdown which might constitute a global recession. The effects of the responses to the COVID-19 pandemic are difficult to assess at this time and may require some substantial passage of time before they are fully understood. The COVID-19 pandemic has affected our operations and likely has caused disruptions and restrictions to our borrowers and to our borrowers' supply chains, closures of facilities, and decreases in demand for their products and services. As a result, the demand for our products and services may be impacted, which could adversely affect our operations and profitability. Furthermore, the pandemic could continue to result in the recognition of credit losses in our loan portfolios and increases in our allowance for credit losses, particularly if businesses remain closed, the impact on the global economy worsens, or clients draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize impairments on certain of our assets. Our business operations may also be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic, and we have already temporarily closed certain of our branches and offices. In response to the pandemic, we have also suspended residential property foreclosure sales, evictions, and involuntary automobile repossessions, and are offering fee waivers, payment deferrals, forbearances, and other expanded assistance for credit card, automobile, mortgage, small business and personal lending customers, and future governmental actions may require these and other types of customer-related responses. In addition, we have temporarily suspended share repurchases and could take other capital actions in response to the COVID-19 pandemic.

We do not have any business interruption insurance that covers pandemics. If we are unable to recover from a business disruption on a timely basis or if the outbreak and its effects lead to recessionary conditions or a deterioration in economic conditions, we could be subject to any of the consequences identified above, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations. There are no comparable recent events that may provide guidance as to the effect of the spread of COVID-19 and the resulting pandemic, and, as a result, the extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, which could prove material and adverse to our business.

Moreover, our future success and profitability is substantially dependent upon the management skills of our executive officers and directors, many of whom have held officer and director positions with us for many years. The unanticipated loss or unavailability of key employees due to the outbreak could harm our ability to operate our business or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability.

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 June 30, 2020.

(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 June 30, 2020.

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
April 2020	221	\$ 27.71	—	1,445,300
May 2020	116	29.84	—	1,445,300
June 2020	145	31.24	—	1,445,300
Total	482	\$ 29.28	—	1,445,300

(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
4.1 *	Indenture, dated May 15, 2020, between First Interstate BancSystem, Inc. and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated May 15, 2020)
4.2 *	First Supplemental Indenture, dated May 15, 2020, by and between First Interstate BancSystem, Inc. and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated May 15, 2020)
4.3 *	Form of 5.25% Fixed-to-Floating Rate Subordinated Notes due 2030 (incorporated herein by reference to Exhibit 4.2 (attached as Exhibit A thereto) to the Company's Form 8-K dated May 15, 2020)
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.

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: August 7, 2020

By: /s/ KEVIN P. RILEY

Kevin P. Riley
President and Chief Executive Officer

Date: August 7, 2020

By: /s/ MARCY D. MUTCH

Marcy D. Mutch
Executive Vice President and Chief Financial Officer

**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: August 7, 2020

/s/ KEVIN P. RILEY

Kevin P. Riley

President and Chief Executive Officer

**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: August 7, 2020

/s/ MARCY D. MUTCH

Marcy D. Mutch

Executive Vice President and Chief Financial Officer

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 June 30, 2020.

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 August 7, 2020.

/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