

FIRST INTERSTATE BANCSYSTEM INC
Form 10-K
February 28, 2012

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

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2011

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)

401 North 31st Street

Billings, Montana

(Address of principal executive offices)

(406) 255-5390

(Registrant's telephone number, including area code)

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

Class A common stock

(Title of each class)

81-0331430

(IRS Employer Identification No.)

59116

(Zip Code)

NASDAQ Stock Market

(Name of each exchange on which registered)

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

Class B common stock

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

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(Do not check if a smaller reporting company)

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

The aggregate market value of voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, was \$275,147,011.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of January 31, 2012:

Class A common stock 16,477,353

Class B common sock 26,544,097

Documents Incorporated by Reference

The registrant intends to file a definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 23, 2012. The information required by Part III of this Form 10-K is incorporated by reference from such Proxy Statement.

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PART I

Item 1. Business

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

Our Company

We are a financial and bank holding company incorporated as a Montana corporation in 1971. We are headquartered in Billings, Montana. As of January 31, 2012, we had consolidated assets of \$7.3 billion, deposits of \$5.8 billion, loans of \$4.2 billion and total stockholders’ equity of \$770 million. We currently operate 71 banking offices in 42 communities located in Montana, Wyoming and western South Dakota. Through our wholly-owned subsidiary, First Interstate Bank we deliver a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities throughout our market areas. Our customers participate in a wide variety of industries, including energy, healthcare and professional services, education and governmental services, construction, mining, agriculture, retail and wholesale trade and tourism. Our principal markets range in size from 23,000 to 150,000 people, have diversified economic characteristics and favorable population growth prospects and usually serve as trade centers for larger rural areas.

We are the licensee under a perpetual trademark license agreement granting us an exclusive, nontransferable license to use the “First Interstate” name and logo in Montana, Wyoming and the six neighboring states of Idaho, Utah, Colorado, Nebraska, South Dakota and North Dakota.

We have grown our business by adhering to a set of guiding principles and a long-term disciplined perspective that emphasizes our commitment to providing high-quality financial products and services, delivering quality customer service, effecting business leadership through professional and dedicated managers and employees, assisting our communities through socially responsible leadership and cultivating a strong and positive corporate culture. In the future, we intend to remain a leader in our markets by continuing to adhere to the core principles and values that have contributed to our growth and success and by continuing to follow our community banking model. In addition, we plan to continue to expand our business in a disciplined and prudent manner, including organic growth in our existing market areas and expansion into new and complementary markets when appropriate opportunities arise.

Community Banking

Community banking encompasses commercial and consumer banking services provided through our Bank, primarily the acceptance of deposits; extensions of credit; mortgage loan origination and servicing; and trust, employee benefit, investment and insurance services. Our community banking philosophy emphasizes providing customers with commercial and consumer banking products and services locally using a personalized service approach while strengthening the communities in our market areas through community service activities. We grant our banking offices significant authority in delivering and pricing products in response to local market considerations and customer needs. This authority enables our banking offices to remain competitive by responding quickly to local market conditions and enhances their relationships with the customers they serve by tailoring our products and price points to each individual customer’s needs. We also require accountability by having company-wide standards and established

limits on the authority and discretion of each banking office. This combination of authority and accountability allows our banking offices to provide personalized customer service and be in close contact with our communities, while at the same time promoting strong performance at the branch level and remaining focused on our overall financial performance.

Lending Activities

We offer short and long-term real estate, consumer, commercial, agricultural and other loans to individuals and businesses in our market areas. We have comprehensive credit policies establishing company-wide underwriting and documentation standards to assist management in the lending process and to limit our risk. Each loan must meet minimum underwriting standards specified in our credit policies. Minimum underwriting standards generally specify that loans (i) are made to

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borrowers located within a designated geographical lending area with the exception of participation loans and loans to national accounts; (ii) are made only for identified legal purposes; (iii) have specifically identified sources of repayment; (iv) mature within designated maximum maturity periods that coincide with repayment sources; (v) are appropriately collateralized whenever possible, (vi) are supported by current credit information; (vii) do not exceed the Bank's legal lending limit; (viii) with fixed interest rates are adjusted within designated time frames; and (ix) require a flood determination prior to closing. In addition, our minimum underwriting standards include lending limitations to prevent concentrations of credit in agricultural, commercial, real estate or consumer loans. Further, each minimum underwriting standard must be documented as part of the loan approval process.

While each loan must meet minimum underwriting standards established in our credit policies, lending officers are granted certain levels of authority in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area. Lending authorities are established at individual, branch and market levels. Branch and market lending authorities are assigned annually by the Company's chief executive officer and chief credit officer based on the size of the branch or market's loan portfolio and the branch or market's historical credit performance. Individual lending limits are approved annually by branch or market management and are based on the credit ability and experience of each individual officer. Branch and market lending limits and aggregate lending relationships in excess of \$10 million are approved by the Bank's board of directors after review by the Credit Committee of the Company's board of directors.

Deposit Products

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

Wealth Management

We provide a wide range of trust, employee benefit, investment management, insurance, agency and custodial services to individuals, businesses and nonprofit organizations. These services include the administration of estates and personal trusts; management of investment accounts for individuals, employee benefit plans and charitable foundations; and insurance planning. As of January 31, 2012, the estimated fair value of trust assets held in a fiduciary or agent capacity was in excess of \$3 billion.

Centralized Services

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

Competition

Commercial banking is highly competitive. We compete with other financial institutions located in Montana, Wyoming, South Dakota and adjoining states for deposits, loans and trust, employee benefit, investment and insurance accounts. We also compete with savings and loan associations, savings banks and credit unions for deposits and loans. In addition, we compete with large banks in major financial centers and other financial intermediaries, such as consumer finance companies, brokerage firms, mortgage banking companies, insurance companies, securities firms, mutual funds and certain government agencies as well as major retailers, all actively engaged in providing various types of loans and other financial services. We generally compete on the basis of customer service and responsiveness to customer needs, available loan and deposit products, rates of interest charged on loans, rates of interest paid for deposits and the availability and pricing of trust, employee benefit, investment and insurance services.

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Employees

At January 31, 2012, we employed 1,677 full-time equivalent employees, none of whom are represented by a collective bargaining agreement. We strive to be the employer of choice in the markets we serve and consider our employee relations to be good.

Regulation and Supervision

Regulatory Authorities

We are subject to extensive regulation under federal and state laws. A description of the material laws and regulations applicable to us is summarized below. This description is not intended to include a summary of all laws and regulations applicable to us. In addition to laws and regulations, state and federal banking regulatory agencies may issue policy statements, interpretive letters and similar written guidance applicable to us. Those issuances may affect the conduct of our business or impose additional regulatory obligations.

As a financial and bank holding company, we are subject to regulation under the Bank Holding Company Act of 1956, as amended, or the Bank Holding Company Act, and to supervision, regulation and regular examination by the Federal Reserve. Because we are a public company, we are also subject to the disclosure and regulatory requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, as administered by the Securities and Exchange Commission, or SEC.

The Bank is subject to supervision and regular examination by its primary banking regulators, the Federal Reserve and the State of Montana, Department of Administration, Division of Banking and Financial Institutions, with respect to its activities in Wyoming the State of Wyoming, Department of Audit, and with respect to its activities in South Dakota, the State of South Dakota Department of Revenue & Regulation, Division of Banking.

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

The extensive regulation of the Bank limits both the activities in which the Bank may engage and the conduct of its permitted activities. Further, the laws and regulations impose reporting and information collection obligations on the Bank. The Bank incurs significant costs relating to compliance with various laws and regulations and the collection and retention of information.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enacts significant changes in federal statutes governing banks and bank holding companies generally as well as other entities. Some of the significant changes are already in effect, additional significant changes will become effective in the near-term and other significant changes require action by federal banking agencies, including the Federal Reserve, the principal federal regulator of the Company. Except as otherwise noted, the following discussion assumes that provisions of the Dodd-Frank Act applicable to banks and bank holding companies to become effective in the near-term are currently in effect.

Financial and Bank Holding Company

The Company is a bank holding company and has registered as a financial holding company under regulations issued by the Federal Reserve. Under federal law, the Company is required to serve as a source of financial strength to the

Bank, including providing financial assistance to the Bank if the Bank experiences financial distress. The federal banking agencies are required under the Dodd-Frank Act to issue joint rules to carry out the source of strength requirements. As of December 31, 2011, the federal banking agencies had not issued rules establishing such source of strength requirements applicable to the Company. However, the Federal Reserve has indicated its intent to issue proposed rules to carry out the source of strength requirements in the first calendar quarter of 2012. Under existing Federal Reserve source of strength policies, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank. The Federal Reserve may also determine that the bank holding company is engaging in unsafe and unsound practices if it fails to commit resources to such a subsidiary bank.

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We are required by the Bank Holding Company Act to obtain Federal Reserve approval prior to acquiring, directly or indirectly, ownership or control of voting shares of any bank, if, after such acquisition, we would own or control more than 5% of its voting stock. Under the Dodd-Frank Act, when acting on an application for approval the Federal Reserve is required to consider whether the transaction would result in greater or more concentrated risks to the United States banking or financial system. Under federal law and regulations, including the Dodd-Frank Act, a bank holding company may acquire banks in states other than its home state if the bank holding company is both 'well-capitalized' and 'well-managed' both before and after the acquisition. The interstate acquisitions are subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company not control, prior to or following the proposed acquisition, more than 10% of the total amount of deposits of insured depository institutions nationwide or, unless the acquisition is the bank holding company's initial entry into the state, more than 30% of such deposits in the state, or such lesser or greater amount set by state law of such deposits in that state.

With additional changes made to federal statutes under the Dodd-Frank Act, banks are also permitted to establish new branches in a state if a bank located in that state could establish a new branch at the proposed location without regard to state laws limiting interstate de novo branching. Banks may also merge across state lines. A state can prohibit interstate mergers entirely or prohibit them if the continuing bank would control insured bank deposits in excess of a specified percentage of total insured bank deposits in the state, provided such prohibition does not discriminate against out-of-state banks. Under Montana law, banks, bank holding companies and their respective subsidiaries cannot acquire control of a bank located in Montana if, after the acquisition, the acquiring institution and its affiliates would directly or indirectly control, in the aggregate, more than 22% of the total deposits of insured depository institutions located in Montana.

We have voluntarily registered with the Federal Reserve as a financial holding company. As a financial holding company, we may engage in certain business activities that are determined by the Federal Reserve to be financial in nature or incidental to financial activities as well as all activities authorized to bank holding companies generally. In most circumstances, we must notify the Federal Reserve of our financial activities within a specified time period following our initial engagement in each business or activity. If the type of proposed business or activity has not been previously determined by the Federal Reserve to be financially related or incidental to financial activities, we must receive the prior approval of the Federal Reserve before engaging in the activity.

We may engage in authorized financial activities, such as providing investment services, provided that we remain a financial holding company and meet certain regulatory standards of being "well capitalized" and "well managed." If we fail to meet the "well capitalized" or "well managed" regulatory standards, we may be required to cease our financial holding company activities or, in certain circumstances, to divest of the Bank. We do not currently engage in significant financial holding company businesses or activities not otherwise permitted for bank holding companies generally. Should we engage in certain financial activities currently authorized to financial holding companies, we may become subject to additional laws, regulations, supervision and examination by regulatory agencies.

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

With limited exceptions, as of July 21, 2011, banks and their affiliates are not permitted to engage in proprietary trading, or invest in, or serve as an advisor to, hedge funds or private equity funds. We have not historically engaged in any of those activities.

Restrictions on Transfers of Funds to Us and the Bank

Dividends from the Bank are the primary source of funds for the payment of our expenses of operating and for the payment of dividends. Under both state and federal law, the amount of dividends that may be paid by the Bank from time to time is limited. In general, the Bank is limited to paying dividends that do not exceed the current year net profits together with retained earnings from the two preceding calendar years unless the prior consents of the Montana and federal banking regulators are obtained.

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A state or federal banking regulator may impose, by regulatory order or agreement of the Bank, specific dividend limitations or prohibitions in certain circumstances. The Bank is not currently subject to a specific regulatory dividend limitation other than generally applicable limitations.

In general, banks are also prohibited from making capital distributions, including dividends and are prohibited from paying management fees to control persons if it would be “undercapitalized” under the regulatory framework for corrective action after making such payments. See “Capital Standards and Prompt Corrective Action.”

Certain restrictive covenants that may exist in future debt instruments may also limit the Bank's ability to make dividend payments to us. Also, under Montana corporate law, a dividend may not be paid if, after giving effect to the dividend: (1) the company would not be able to pay its debts as they become due in the usual course of business; or (2) the company's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the company were to be dissolved at the time of the dividend, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividend.

Furthermore, because we are a legal entity separate and distinct from the Bank, our right to participate in the distribution of assets of the Bank upon its liquidation or reorganization will be subject to the prior claims of the Bank's creditors. In the event of such a liquidation or other resolution, the claims of depositors and other general or subordinated creditors of the Bank are entitled to a priority of payment of the claims of holders of any obligation of the Bank to its shareholders, including us, or our shareholders or creditors.

Restrictions on Transactions with Affiliates, Directors and Officers

Under the Federal Reserve Act, the Bank may not lend funds to, or otherwise extend credit to or for our benefit or the benefit of our affiliates, except on specified types and amounts of collateral and other terms required by state and federal law. The limitation on lending may limit our ability to obtain funds from the Bank for our cash needs, including funds for payment of dividends, interest and operational expenses.

The Federal Reserve also has authority to define and limit the transactions between banks and their affiliates. The Federal Reserve's Regulation W and relevant federal statutes, among other things, impose significant additional limitations on transactions in which the Bank may engage with us, with each other, or with other affiliates.

Federal Reserve Regulation O restricts loans to the Bank and Company insiders, which includes directors, officers and principal stockholders and their respective related interests. All extensions of credit to the insiders and their related interests must be on the same terms as, and subject to the same loan underwriting requirements as, loans to persons who are not insiders. In addition, Regulation O imposes lending limits on loans to insiders and their related interests and imposes, in certain circumstances, requirements for prior approval of the loans by the Bank board of directors.

Capital Standards and Prompt Corrective Action

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Under the Dodd-Frank Act, the federal banking agencies are required to establish, by regulation or order, minimum capital requirements for insured depository organizations and the Federal Reserve is permitted to establish capital

requirements, by regulation or order, for bank holding companies. The minimum capital requirements to be established cannot be less than the minimum capital guidelines in effect when the Dodd-Frank Act was enacted. The Federal Reserve is required to seek to make capital requirements countercyclical by increasing the amount of required capital during times of economic expansion and decreasing the amount of required capital during times of economic contraction. The provisions of the Dodd-Frank Act, together with actions taken by the Basel Committee for the Basel III accords, may result in future regulatory minimum capital requirements that will exceed the regulatory minimum capital guidelines to which we are currently subject.

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In 2011, the Federal Reserve issued several requests for comments on proposed rules that, if adopted, would implement, among other things, the capital guideline requirements under the Dodd-Frank Act. In most circumstances the proposed rules would apply only to bank holding companies or banks with consolidated assets in excess of \$50 billion. Some proposed rules would apply to bank holding companies or banks with consolidated assets in excess of \$10 billion. Because the Company has consolidated assets of less than \$10 billion, none of the proposed rules, if adopted, would apply to the Company or the Bank.

The Federal Reserve has indicated its intent to issue additional proposed rules in 2012 addressing minimum capital and leverage requirements.

Currently, the Federal Reserve Board and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banks similar in asset size to the Bank. The guidelines are intended to ensure that banks have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. Generally, under the applicable guidelines, a financial institution's capital is divided into two tiers. These tiers are:

Core Capital (tier 1). Tier 1 capital includes common equity, noncumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less both goodwill (adjusted for associated deferred tax liability) and, with certain limited exceptions, all other intangible assets. Bank holding companies, however, may include up to a limit of 25% of cumulative preferred stock in their tier 1 capital.

Supplementary Capital (tier 2). Tier 2 capital includes, among other things, cumulative and limited-life preferred stock, hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt and the allowance for loan and lease losses, subject to certain limitations.

Institutions that must incorporate market risk exposure into their risk-based capital requirements may also have a third tier of capital in the form of restricted short-term subordinated debt.

The Dodd-Frank Act provisions relating to required minimum capital also limit, in certain circumstances, the use of hybrid capital instruments in meeting regulatory capital requirements, including instruments similar to those which we currently have issued and outstanding. However, because our total consolidated assets are substantially less than \$15 billion, the limitations on use of hybrid capital instruments are not expected to apply to us for the foreseeable future.

We, like other bank holding companies, are required under current guidelines to maintain tier 1 capital and total capital (the sum of tier 1 and tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of our total risk-weighted assets. The Bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. For a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action its tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization's tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The current guidelines require a minimum leverage ratio of 3.0% for financial holding companies and banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted capital measure for market risk. All other financial holding companies and

banks are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered “well capitalized” under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

The capital guidelines also provide that banking organizations experiencing significant internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. In addition, the regulations of the bank regulators provide that concentration of credit risks, as well as an institution's ability to manage these risks, are important factors to be taken into account by regulatory agencies in assessing an organization's overall capital adequacy. The Federal Reserve has not advised us of any specific minimum leverage ratio applicable to us or the Bank.

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The FDIA requires, among other things, the federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the tier 1 capital ratio and the leverage ratio.

Under the regulations adopted by the federal regulatory authorities, a bank will be: (1) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 5.0% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (2) “adequately capitalized” if the institution has a total risk-based capital ratio of 8.0% or greater, a tier 1 risk-based capital ratio of 4.0% or greater and a leverage ratio of 4.0% or greater (3.0% in certain circumstances) and is not “well capitalized”; (3) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0% (3.0% in certain circumstances); (4) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (5) “critically undercapitalized” if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. Our regulatory capital ratios and those of the Bank are in excess of the levels established for “well capitalized” institutions. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of (1) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and (2) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.”

“Significantly undercapitalized” depository institutions may be subject to a number of requirements and restrictions, including mandated capital raising activities such as orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, restrictions for interest rates paid, removal of management and cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator.

A bank that is not “well-capitalized” as defined by applicable regulations may, among other regulatory requirements or limitations, be prohibited under federal law and regulation from accepting or renewing brokered deposits.

The capital stock of banks organized under Montana law, such as the Bank, may be subject to assessment upon the direction of the Montana Department of Administration under the Montana Bank Act. Under the Montana Bank Act,

if the Department of Administration determines an impairment of a bank's capital exists, it may notify the bank's board of directors of the impairment and require the impairment be made good by an assessment on the bank stock. If the bank fails to make good the impairment, the Department of Administration may, among other things, take charge of the bank and proceed to liquidate the bank.

Under FDIA, the appropriate federal banking agency may take certain actions with respect to significantly or critically undercapitalized institutions. The actions may include requiring the sale of additional shares of the institution's stock or other actions deemed appropriate by the federal banking agency, which could include assessment on the institution's stock.

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Safety and Soundness Standards and Other Enforcement Mechanisms

The federal banking agencies have adopted guidelines establishing standards for safety and soundness, asset quality and earnings, internal controls and audit systems, among others, as required by the Federal Deposit Insurance Corporation Improvement Act, or FDICIA. These standards are designed to identify potential concerns and ensure that action is taken to address those concerns before they pose a risk to the deposit insurance fund, or DIF. If a federal banking agency determines that an institution fails to meet any of these standards, the agency may require the institution to submit an acceptable plan to achieve compliance with the standard. If the institution fails to submit an acceptable plan within the time allowed by the agency or fails in any material respect to implement an accepted plan, the agency must, by order, require the institution to correct the deficiency.

Federal banking agencies possess broad enforcement powers to take corrective and other supervisory action on an insured bank and its holding company. Moreover, federal laws require each federal banking agency to take prompt corrective action to resolve the problems of insured banks. Bank holding companies and insured banks are subject to a wide range of potential enforcement actions by federal regulators for violation of any law, rule, regulation, standard, condition imposed in writing by the regulator, or term of a written agreement with the regulator.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. The maximum deposit insurance amount is \$250,000 per depositor. In addition, certain non-interest bearing deposit accounts are accorded unlimited insurance until December 31, 2013. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

All FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation, or FICO, an agency of the Federal government established to recapitalize the predecessor to the DIF. The FICO assessment rates, which are determined quarterly, averaged 0.01% of insured deposits in fiscal 2011. These assessments will continue until the FICO bonds mature in 2017.

On November 17, 2009, the FDIC imposed a prepayment requirement on most insured depository organizations, requiring that the organizations prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 and for each calendar quarter for calendar years 2010, 2011 and 2012. The FDIC has stated that the prepayment requirement was imposed in response to a negative balance in the DIF.

As required by the Dodd-Frank Act the FDIC changed its method of assessment of insurance premiums effective as of April 1, 2011 to an assessment based on the average total consolidated assets of the insured depository institution less the institutions average tangible equity for the assessment period and made other adjustments to the assessment calculation methods. The changes reduced the deposit insurance premium paid by the Bank from the amounts paid under the prior assessment method based on total deposits.

The FDIC is also required to set its designated reserve ratio for each year at 1.35% of estimated insured deposits and take actions necessary to reach a reserve ratio of 1.35% of total estimated insured deposits by September 30, 2020. The FDIC may be required to increase deposit insurance premium assessments to meet the reserve ratio requirements. However, under the Dodd-Frank Act, the effects of any increases in deposit insurance premium assessments are to be offset for the benefit of depository institutions with total consolidated assets of less than \$10 billion. The Bank currently has total consolidated assets of less than \$10 billion.

Insolvency of an Insured Depository Institution

If the FDIC is appointed the conservator or receiver of an insured depository institution upon its insolvency or in certain other events, the FDIC has the power, among other things: (1) to transfer any of the depository institution's assets and liabilities to a new obligor without the approval of the depository institution's creditors; (2) to enforce the terms of the depository institution's contracts pursuant to their terms; or (3) to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmation or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

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Depositor Preference

The FDIA provides that, in the event of the “liquidation or other resolution” of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Customer Privacy and Other Consumer Protections

Federal law imposes customer privacy requirements on any company engaged in financial activities, including the Bank and us. Under these requirements, a financial company is required to protect the security and confidentiality of customer nonpublic personal information. In addition, for customers who obtain a financial product such as a loan for personal, family or household purposes, a financial holding company is required to disclose its privacy policy to the customer at the time the relationship is established and annually thereafter. The financial company must also disclose its policies concerning the sharing of the customer's nonpublic personal information with affiliates and third parties. Finally, a financial company is prohibited from disclosing an account number or similar item to a third party for use in telemarketing, direct mail marketing or marketing through electronic mail.

The Bank is subject to a variety of federal and state laws, regulations and reporting obligations aimed at protecting consumers and Bank customers. Failure to comply with these laws and regulations may, among other things, impair the collection of loans made in violation of the laws and regulations, provide borrowers or other customers certain rights and remedies or result in the imposition of penalties on the Bank.

The Equal Credit Opportunity Act generally prohibits discrimination in credit transactions on, among other things, the basis of race, color, religion, national origin, sex, marital status or age and, in certain circumstances, limits the Bank's ability to require co-obligors or guarantors as a condition to the extension of credit to an individual.

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

The Truth in Lending Act, or TILA, and Regulation Z require disclosures to borrowers and other parties in consumer loans including, among other things, disclosures relating to interest rates and other finance charges, payments and payment schedules and annual percentage rates. TILA provides remedies to borrowers upon certain failures in compliance by a lender.

The Fair Housing Act regulates, among other things, lending practices in residential lending and prohibits discrimination in housing related lending activities on the basis of race, color, religion, national origin, sex, handicap, disability or familial status.

The Home Mortgage Disclosure Act requires certain lenders and other firms engaged in the home mortgage industry to collect and report information relating to applicants, borrowers and home mortgage lending activities in which they engage in their market areas or communities. The information is used for, among other purposes, evaluation of discrimination or other impermissible acts in home mortgage lending.

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

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

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

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The Electronic Fund Transfer Act regulates fees and other terms on electronic funds transactions. On November 17, 2009, the Federal Reserve Board published a final rule amending Regulation E, which implements the Electronic Fund Transfer Act. Effective July 1, 2010 for new accounts and August 15, 2010 for existing accounts, this rule generally prohibits financial institutions from charging an overdraft fee for automated teller machine and one-time debit card transactions that overdraw a consumer deposit account, unless the customer opts in to having the overdrafts authorized and paid.

The Federal Reserve issued regulations relating to fees and charges in debit card transactions intended to implement provisions of the Dodd-Frank Act. Card issuers with consolidated assets of less than \$10 billion are exempt from the interchange fee standards but are subject to other rules addressing exclusivity and other requirements. The Bank is not subject to the interchange fee standards as its consolidated assets, together with affiliates, are less than \$10 billion.

Federal consumer protection laws have been expanded by the Dodd-Frank Act, pursuant to which a Bureau of Consumer Protection has been created with authority to regulate consumer financial products and services and to implement and enforce federal consumer financial laws. Although the Bureau is accorded examination and enforcement authority, the Bureau's authority does not generally extend to depository institutions with total assets of less than \$10 billion. The Bank currently has total assets of less than \$10 billion.

The Community Reinvestment Act, or CRA, generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of fair lending laws, the federal banking agencies may take compliance with such laws and the CRA into account when regulating and supervising our other activities or in authorizing new activities.

In connection with its assessment of CRA performance, the appropriate bank regulatory agency assigns a rating of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank received an "outstanding" rating on its most recent published examination. Although the Bank's policies and procedures are designed to achieve compliance with all fair lending and CRA requirements, instances of non-compliance are occasionally identified through normal operational activities. Management responds proactively to correct all instances of non-compliance and implement procedures to prevent further violations from occurring.

USA PATRIOT Act

The USA PATRIOT Act of 2001 amended the Bank Secrecy Act of 1970 and the Money Laundering Control Act of 1986 and adopted additional measures requiring insured depository institutions, broker-dealers and certain other financial institutions to have policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The USA PATRIOT Act includes the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 and also amends laws relating to currency control and regulation. The laws and related regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition or merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution. The USA PATRIOT Improvement and Reauthorization Act of 2005, among other things, made permanent or otherwise generally extended the effectiveness of provisions applicable to financial institutions.

Office of Foreign Asset Control

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

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Website Access to SEC Filings

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

Item 1A. Risk Factors

Like other financial and bank holding companies, we are subject to a number of risks, many of which are outside of our control. If any of the events or circumstances described in the following risk factors actually occurs, our business, financial condition, results of operations and prospects could be harmed. These risks are not the only ones that we may face. Other risks of which we are not aware, including those which relate to the banking and financial services industry in general and us in particular, or those which we do not currently believe are material, may harm our future business, financial condition, results of operations and prospects. Readers should consider carefully the following important factors in evaluating us, our business and an investment in our securities.

Risks Relating to the Market and Our Business

We may incur significant credit losses, particularly in light of recent and existing market conditions.

We take on credit risk by virtue of making loans and extending loan commitments and letters of credit. Our credit standards, procedures and policies may not prevent us from incurring substantial credit losses, particularly in light of market developments in recent years. During 2010 and 2011, we experienced deterioration in credit quality, particularly in certain real estate development loans, due, in part, to the impact resulting from the downturn in the prevailing economic, real estate and credit markets. This deterioration resulted in higher levels of non-performing assets, including other real estate owned, or OREO, and internally risk classified loans, thereby increasing our provisions for loan losses and decreasing our operating income in 2010 and 2011. As of December 31, 2011, we had total non-performing assets of approximately \$279 million, compared with approximately \$244 million as of December 31, 2010 and approximately \$163 million as of December 31, 2009. In the first two months of 2012, levels of non-performing assets and provisions for loan losses have remained elevated, which will continue to affect our earnings. Although current economic conditions appear to be trending upwards, management believes we will continue to experience credit impairments and elevated levels of non-performing loans in the near term, which will likely have an adverse impact on our business, financial condition, results of operations and prospects.

Our concentration of real estate loans subjects us to increased risks in the event real estate values continue to decline due to the economic recession, a further deterioration in the real estate markets or other causes.

At December 31, 2011, we had approximately \$2.7 billion of commercial, agricultural, construction, residential and other real estate loans, representing approximately 65% of our total loan portfolio. The recent economic recession, deterioration in the real estate markets and increasing delinquencies and foreclosures have had an adverse effect on the collateral value for many of our loans and on the repayment ability of many of our borrowers. The continuation or further deterioration of these factors, including increasing foreclosures and unemployment, will continue to have the

same or similar adverse effects. In addition, these factors could reduce the amount of loans we make to businesses in the construction and real estate industry, which could negatively impact our interest income and results of operations. A continued decline in real estate values could also lead to higher charge-offs in the event of defaults in our real estate loan portfolio. Similarly, the occurrence of a natural or manmade disaster in our market areas could impair the value of the collateral we hold for real estate secured loans. Any one or a combination of the factors identified above could negatively impact our business, financial condition, results of operations and prospects.

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Economic and market developments, including the potential for inflation, may have an adverse effect on our business, possibly in ways that are not predictable or that we may fail to anticipate.

Recent economic and market developments and the potential for continued economic disruptions and inflation represent considerable risks and challenges to us. Dramatic declines in the housing market, with decreased home prices and increased delinquencies and foreclosures throughout most of the nation, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. General downward economic trends, reduced availability of commercial credit and high levels of unemployment have also negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. These risks and challenges have significantly diminished overall confidence in the national economy, the financial markets and many financial institutions. This reduced confidence could further compound the overall market disruptions and risks to banks and bank holding companies, including us.

Many of our loans are to commercial borrowers, which have a higher degree of risk than other types of loans.

Commercial loans, including commercial real estate loans, are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is more sensitive than other types of loans to adverse conditions in the real estate market or the general economy. Accordingly, the downturn in the real estate market and economy has heightened our risk related to commercial loans, particularly commercial real estate loans. Unlike residential mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as the collateral which is generally less readily-marketable, losses incurred on a small number of commercial loans could have a material adverse impact on our financial condition and results of operations. At December 31, 2011, we had \$2.2 billion of commercial loans, including \$1.6 billion of commercial real estate loans, representing approximately 54% of our total loan portfolio.

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

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

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

The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely impairment has occurred.

In testing for impairment, the fair value of net assets is estimated based on analyses of our market value, discounted cash flows and peer values. Consequently, the determination of the fair value of goodwill is sensitive to market-based economics and other key assumptions. Variability in market conditions or in key assumptions could result in impairment of goodwill, which is recorded as a noncash adjustment to income. An impairment of goodwill could have a material adverse effect on our business, financial condition and results of operations. As of December 31, 2011, we had goodwill of approximately \$184 million, or 24% of our total stockholders' equity. Furthermore, an impairment of goodwill could cause our Bank to be unable to pay dividends to us. If our Bank is unable to pay dividends to us, our cash flow and liquidity would be reduced. See below “— Our Bank's ability to pay dividends to us is subject to regulatory limitations, which, to the extent we are not able to receive such dividends, may impair our ability to grow, pay dividends, cover operating expenses and meet debt service requirements.”

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Changes in interest rates could negatively impact our net interest income, may weaken demand for our products and services or harm our results of operations and cash flows.

Our earnings and cash flows are largely dependent upon net interest income, which is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also adversely affect (1) our ability to originate loans and obtain deposits, (2) the fair value of our financial assets and liabilities, including mortgage servicing rights, (3) our ability to realize gains on the sale of assets and (4) the average duration of our mortgage-backed investment securities portfolio. An increase in interest rates may reduce customers' desire to borrow money from us as it increases their borrowing costs and may adversely affect the ability of borrowers to pay the principal or interest on loans which may lead to an increase in non-performing assets and a reduction of income recognized, which could harm our results of operations and cash flows. Further, because many of our variable rate loans contain interest rate floors, as market interest rates begin to rise, the interest rates on these loans may not increase correspondingly. In contrast, decreasing interest rates have the effect of causing customers to refinance mortgage loans faster than anticipated. This causes the value of assets related to the servicing rights on mortgage loans sold to be lower than originally recognized. If this happens, we may need to write down our mortgage servicing rights assets faster, which would accelerate expense and lower our earnings. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our cash flows, financial condition, results of operations and prospects. If the current low interest rate environment were to continue for a prolonged period, our interest income could decrease, adversely impacting our financial condition, results of operations and cash flows.

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

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

Our deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC insured depository institutions, including the Bank. Under current FDIC regulations, each insured depository institution is subject to a risk-based assessment system and, depending on its assigned risk category, is assessed insurance premiums based on average total assets less average tangible equity, with adjustments for brokered deposits, unsecured debt and for custodial banks and banks that primarily provide services to other banks. The FDIC charges insured financial institutions premiums to maintain the Depositors Insurance Fund or DIF at a certain level. Bank failures have substantially reduced the DIF's reserves. The FDIC has published and amended a restoration plan designed to replenish the DIF and to increase the deposit insurance reserve ratio through 2015. To implement the restoration plan, the FDIC has adopted a series of initiatives that have changed its risk-based assessment system, increased its base assessment rates and imposed special assessments.

A change in the risk category assigned to our Bank, further adjustments to base assessment rates and additional special assessments could have a material adverse effect on our earnings, financial condition and results of operation.

We may not be able to continue growing our business.

Our total assets have grown from \$5.2 billion as of December 31, 2007 to \$7.3 billion as of December 31, 2011. Our ability to grow depends, in part, upon our ability to successfully attract deposits, identify favorable loan and investment opportunities, open new branch banking offices and expand into new and complementary markets when appropriate opportunities arise. In the event we do not continue to grow, our results of operations could be adversely impacted.

Our ability to grow successfully depends on our capital resources and whether we can continue to fund growth while maintaining cost controls and asset quality, as well as on other factors beyond our control, such as national and regional economic conditions and interest rate trends. If we are not able to make loans, attract deposits and maintain asset quality due to constrained capital resources or other reasons, we may not be able to continue growing our business, which could adversely impact our earnings, financial condition, results of operations, and prospects.

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Adverse economic conditions affecting Montana, Wyoming and western South Dakota could harm our business.

Our customers with loan and/or deposit balances are located predominantly in Montana, Wyoming and western South Dakota. Because of the concentration of loans and deposits in these states, existing or future adverse economic conditions in Montana, Wyoming or western South Dakota could cause us to experience higher rates of loss and delinquency on our loans than if the loans were more geographically diversified. The recent economic recession has adversely affected the real estate and business environment in certain areas in Montana and Wyoming, especially in markets dependent upon resort communities and second homes such as Bozeman, Montana, Kalispell, Montana, and Jackson, Wyoming. In the future, adverse economic conditions, including inflation, recession and unemployment and other factors, such as regulatory or business developments, natural disasters, wide-spread disease, terrorist activity, environmental contamination and other unfavorable conditions and events that affect these states, could reduce demand for credit or fee-based products and may delay or prevent borrowers from repaying their loans. Adverse conditions and other factors identified above could also negatively affect real estate and other collateral values, interest rate levels and the availability of credit to refinance loans at or prior to maturity. These results could adversely impact our business, financial condition, results of operations and prospects.

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

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

Recent events have resulted in legislators, regulators and authoritative bodies, such as the Financial Accounting Standards Board, the Securities and Exchange Commission, or SEC, the Public Company Accounting Oversight Board and various taxing authorities responding by adopting and/or proposing substantive revisions to laws, regulations, rules, standards, policies and interpretations. Further, federal monetary policy as implemented through the Federal Reserve can significantly affect credit conditions in our markets.

The nature, extent and timing of the adoption of significant new laws, regulations, rules, standards, policies and interpretations, or changes in or repeal of these items or specific actions of regulators, may increase our costs of compliance and harm our business. For example, potential increases in or other modifications affecting regulatory capital thresholds could impact our status as "well capitalized." We may not be able to predict accurately the extent of any impact from changes in existing laws, regulations, rules, standards, policies and interpretations.

The Dodd-Frank Act will result in sweeping changes in the regulation of financial institutions and could significantly harm our business.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act will result in sweeping changes in the regulation of financial institutions. The Dodd-Frank Act contains numerous provisions that will affect all banks and bank holding companies. Many of these and other provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known including provisions that, among other

things:

centralize responsibility for promulgating regulations under and enforcing federal consumer financial protection laws in a new bureau of consumer financial protection that will have direct supervision and examination authority over banks with more than \$10 billion in assets;

require the FDIC to seek to make its capital requirements for banks countercyclical;

impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;

implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders;

establish new rules and restrictions regarding the origination of mortgages; and

permit the Federal Reserve to prescribe regulations regarding interchange transaction fees, and limit them to an amount reasonable and proportional to the cost incurred by the issuer for the transaction in question.

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Although we cannot predict the specific impact and long-term effects that the Dodd-Frank Act will have on us and the financial industry in general, we believe the Dodd-Frank Act and the regulations promulgated thereunder will result in additional administrative burdens that will obligate us to incur additional costs and expenses. Provisions of the Act that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

Although the treatment of our existing trust preferred securities as Tier 1 capital will be grandfathered under the Act, provisions of the Act that revoke Tier 1 capital treatments of trust preferred securities and otherwise require revisions to capital requirements may cause us to seek other sources of capital in the future. Furthermore, the Dodd-Frank Act could limit the types of financial services and products we may offer, increase the ability of non-banks to offer competing financial services and products, reduce interchange fees, require us to renegotiate payment network agreements or enter into multiple payment network agreements, require a significant amount of management's time and attention, and otherwise adversely impact our business, financial condition, results of operations and prospects.

Non-compliance with laws and regulations could result in fines, sanctions and other enforcement actions and the loss of our financial holding company status.

Federal and state regulators have broad enforcement powers. If we fail to comply with any laws, regulations, rules, standards, policies or interpretations applicable to us, we could face various sanctions and enforcement actions, which include:

- the appointment of a conservator or receiver for us;
- the issuance of a cease and desist order that can be judicially enforced;
 - the termination of our deposit insurance;
- the imposition of civil monetary fines and penalties;
- the issuance of directives to increase capital;
- the issuance of formal and informal agreements;
- the issuance of removal and prohibition orders against officers, directors and other institution-affiliated parties; and
- the enforcement of such actions through injunctions or restraining orders

The imposition of any such sanctions or other enforcement actions could adversely impact our earnings, financial condition, results of operations and prospects. Furthermore, as a financial holding company, we may engage in authorized financial activities provided we are in compliance with applicable regulatory standards and guidelines. If we fail to meet such standards and guidelines, we may be required to cease certain financial holding company activities and, in certain circumstances, to divest the Bank.

The effects of recent legislative and regulatory efforts are uncertain.

In response to market disruptions, legislators and financial regulators implemented a number of initiatives designed to stabilize and improve the financial markets, including:

- direct and indirect assistance to distressed financial institutions and the provision of assistance by the banking authorities in arranging acquisitions of weakened banks and broker-dealers;
- legislation that provided economic stimulus funding and liquidity to the financial markets, including the Troubled Asset Relief Program Capital Purchase Program;
- programs by the Federal Reserve to provide liquidity to the commercial paper markets, stimulus to increase commercial and consumer based lending, and successive rounds of quantitative easing;
- proposed guidance by the Federal Reserve on incentive compensation policies at banking organizations;

proposals and recent judicial decisions limiting a lender's ability to foreclose on mortgages or make such foreclosures less economically viable, including by allowing Chapter 13 bankruptcy plans to “cram down” the value of certain mortgages on a consumer's principal residence to its market value and/or reset interest rates and monthly payments to permit defaulting debtors to remain in their home;

acceleration of the effective date of various provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009, which restrict certain credit and charge card practices, require expanded disclosures to consumers and provide consumers with the right to opt out of interest rate increases (with limited exceptions); adoption of new rules by the Federal Reserve under Regulation E, effective July 1, 2010 for new accounts and August 15, 2010 for existing accounts, generally prohibiting financial institutions from charging overdraft fees for ATM and one-time debit card transactions that overdraw consumer deposit accounts, unless the consumer “opts in” to having such overdrafts authorized and paid; and

enactment of the Dodd-Frank Act.

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These initiatives may increase our expenses or decrease our income by, among other things, making it harder for us to foreclose on mortgages and impacting the amount of overdraft fees we will be able to charge. Further, the overall effects of these and other legislative and regulatory efforts on the financial markets remain uncertain and they may not have the intended results. These efforts may even have unintended harmful consequences on the U.S. financial system and our business. Should these or other legislative or regulatory initiatives have unintended effects, our business, financial condition, results of operations and prospects could be materially and adversely affected.

In addition, we may need to modify our strategies and business operations in response to these changes. We may also incur increased capital requirements and constraints or additional costs in order to satisfy new regulatory requirements. Given the volatile nature of the current market and the uncertainties underlying efforts to mitigate or reverse disruptions, we may not timely anticipate or manage existing, new or additional risks, contingencies or developments in the current or future environment. Our failure to do so could materially and adversely affect our business, financial condition, results of operations and prospects.

We are dependent upon the services of our management team and directors.

Our future success and profitability is substantially dependent upon the management skills of our executive officers and directors, many of whom have held officer and director positions with us for many years. We do not currently have employment agreements or non-competition agreements with any of our key executives. The unanticipated loss or unavailability of key employees could harm our ability to operate our business or execute our business strategy. We cannot assure you that we will be successful in retaining these key employees or finding and integrating suitable successors in the event of their loss or unavailability.

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

There is substantial competition for qualified personnel in our markets. Although unemployment rates have been declining in Montana and Wyoming, and the surrounding region, it may still be difficult to attract and retain qualified employees at all management and staffing levels. Failure to attract and retain employees and maintain adequate staffing of qualified personnel could adversely impact our operations and our ability to execute our business strategy. Furthermore, relatively low unemployment rates in certain of our markets, compared with national unemployment rates, may lead to significant increases in salaries, wages and employee benefits expenses as we compete for qualified, skilled employees, which could negatively impact our results of operations and prospects.

A failure of the technology we use could harm our business and our information systems may experience a breach in security.

We rely heavily on communications and information systems to conduct our business and we depend heavily upon data processing, software, communication and information exchange from a number of vendors on a variety of computing platforms and networks and over the internet. We cannot be certain that all of our systems are entirely free from vulnerability to breaches of security or other technological difficulties or failures. A breach in the security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, investment, credit card and other information systems. A breach of the security of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny and expose us to civil litigation and possible financial liability.

Furthermore, the computer systems and network infrastructure we use could be vulnerable to other unforeseen problems, such as damage from fire, privacy loss, telecommunications failure or other similar events which would

also have an adverse impact on our financial condition and results of operations.

Our operations rely on certain external vendors.

We are reliant upon certain external vendors to provide products and services necessary to maintain our day-to-day operations. In addition, we are subject to certain long-term vendor contracts that limit our flexibility and increase our dependence on third party vendors. Failure of certain external vendors to perform in accordance with contractual arrangements could be disruptive to our operations and limit our ability to provide certain products and services demanded by our customers, which could have material adverse impact on our financial condition or results of operations

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We are subject to liquidity risks.

Liquidity is the ability to meet current and future cash flow needs on a timely basis at a reasonable cost. Our liquidity is used to make loans and to repay deposit liabilities as they become due or are demanded by customers. Potential alternative sources of liquidity include federal funds purchased and securities sold under repurchase agreements. We maintain a portfolio of investment securities that may be used as a secondary source of liquidity to the extent the securities are not pledged for collateral. Other potential sources of liquidity include the sale of loans, the utilization of available government and regulatory assistance programs, the ability to acquire national market, non-core deposits, the issuance of additional collateralized borrowings such as Federal Home Loan Bank, or FHLB, advances, the issuance of debt securities, issuance of equity securities and borrowings through the Federal Reserve's discount window. Without sufficient liquidity from these potential sources, we may not be able to meet the cash flow requirements of our depositors and borrowers.

Additionally, our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors specific to us, the financial services industry or the economy in general. Factors that could reduce our access to liquidity sources include a downturn in our local or national economies, difficult or illiquid credit markets or adverse regulatory actions against us. A failure to maintain adequate liquidity could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to find suitable acquisition candidates.

Although our growth strategy is to primarily focus and promote organic growth, we also have in the past and intend in the future to complement and expand our business by pursuing strategic acquisitions of banks and other financial institutions. We believe, however, there are a limited number of banks that will meet our acquisition criteria and, consequently, we cannot assure you that we will be able to identify suitable candidates for acquisitions. In addition, even if suitable candidates are identified, we expect to compete with other potential bidders for such businesses, many of which may have greater financial resources than we have. Our failure to find suitable acquisition candidates, or successfully bid against other competitors for acquisitions, could adversely affect our ability to successfully implement our business strategy.

We may be unable to manage our growth due to acquisitions, which could have an adverse effect on our financial condition or results of operations.

Acquisitions of other banks and financial institutions involve risks of changes in results of operations or cash flows, unforeseen liabilities relating to the acquired institution or arising out of the acquisition, asset quality problems of the acquired entity and other conditions not within our control, such as adverse personnel relations, loss of customers because of change of identity, deterioration in local economic conditions and other risks affecting the acquired institution. In addition, the process of integrating acquired entities will divert significant management time and resources. We may not be able to integrate successfully or operate profitably any financial institutions we may acquire. We may experience disruption and incur unexpected expenses in integrating acquisitions. There can be no assurance that any such acquisitions will enhance our cash flows, business, financial condition, results of operations or prospects and such acquisitions may have an adverse effect on our results of operations, particularly during periods in which the acquisitions are being integrated into our operations.

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

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources, higher lending limits and large branch networks. Such competitors

primarily include national, regional and community banks within the various markets we serve. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Increased competition among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies may adversely affect our ability to market our products and services. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic funds transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may offer a broader range of products and services as well as better pricing for those products and services than we can.

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

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

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

We may not be able to manage risks inherent in our business, particularly given the recent turbulent and dynamic market conditions.

A comprehensive and well-integrated risk management function is essential for our business. We have adopted various policies, procedures and systems to monitor and manage risk and are currently implementing a centralized risk oversight function. These policies, procedures and systems may be inadequate to identify and mitigate all risks inherent in our business. In addition, our business and the markets and industry in which we operate are continuously evolving. We may fail to understand fully the implications of changes in our business or the financial markets and fail to adequately or timely enhance our risk framework to address those changes, particularly given the recent turbulent and dynamic market conditions. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets or in our business or for other reasons, we could incur losses and otherwise experience harm to our business.

Our systems of internal operating controls may not be effective.

We establish and maintain systems of internal operational controls that provide us with critical information used to manage our business. These systems are subject to various inherent limitations, including cost, judgments used in decision-making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error and the risk of fraud. Moreover, controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, any system of internal operating controls may not be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management. From time to time, control deficiencies and losses from operational malfunctions or fraud have occurred and may occur in the future. Any future deficiencies, weaknesses or losses related to internal operating control systems could have an adverse effect on our business and, in turn, on our financial condition, results of operations and prospects.

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

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. If hazardous or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our

ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our cash flows, financial condition and results of operations.

We are subject to claims and litigation pertaining to our fiduciary responsibilities.

Some of the services we provide, such as trust and investment services, require us to act as fiduciaries for our customers and others. From time to time, third parties make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. If these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability and/or our reputation could be damaged. Either of these results may adversely impact demand for our products and services or otherwise have a harmful effect on our business and, in turn, on our financial condition, results of operations and prospects.

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

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

The Federal Reserve may require us to commit capital resources to support our bank subsidiary.

As a matter of policy, the Federal Reserve, which examines us and our subsidiaries, expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the “source of strength” doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's cash flows, financial condition, results of operations and prospects.

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

The financial services industry as a whole, as well as the securities markets generally, have been materially and adversely affected by significant declines in the values of nearly all asset classes and a serious lack of liquidity. If other financial institutions in our markets dispose of real estate collateral at below-market prices to meet liquidity or regulatory requirements, such actions could negatively impact overall real estate values, including properties securing our loans. Our credit risk is exacerbated when the collateral we hold cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit exposure due to us. Any such losses could harm our financial condition, results of operations and prospects.

Financial institutions in particular have been subject to increased volatility and an overall loss of investor confidence. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties. For example, we execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these

transactions expose us to increased credit risk in the event of default of a counterparty or client.

The short-term and long-term impact of the new Basel III capital standards and the forthcoming new capital rules to be proposed for U.S. banks is uncertain.

On December 16, 2010, the Basel Committee on Banking Supervision, or Basel Committee, released the final text of its reforms to strengthen global capital and liquidity rules designed to create a more resilient banking industry. These reforms, known as Basel III, are intended to strengthen the regulatory capital framework by, among other things, (1) raising the quality, consistency and transparency of an institution's capital base, (2) reducing procyclicality and promoting counter cyclical buffers, (3) enhancing risk coverage, (4) supplementing the risk-based capital requirement with a leverage ratio, and (5) introducing a global liquidity standard.

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On January 13, 2011, the Basel Committee issued additional criteria to Basel III. This criteria provides that for instruments issued by a bank to be included in Tier 1 or Tier 2 capital, they must meet or exceed minimum requirements designed to require such instruments to fully absorb losses before taxpayers are exposed to loss.

Basel III, as supplemented, has been adopted by the Federal Reserve and implementation will start on January 1, 2013. Regulations will be amended and implemented prior to that date. From January 1, 2013 on, banks will have to meet certain minimum capital requirements for share capital, Tier-1 capital, and total capital. Because the regulations are still to be implemented, the short-term and long-term impact of the Basel III capital standards and the forthcoming new capital rules to be proposed for U.S. banks is uncertain.

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

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

Furthermore, the terms of our Series A preferred stock, of which 5,000 shares were outstanding as of December 31, 2011, prohibit us from declaring or paying dividends or distributions on any class of our common stock, unless all accrued and unpaid dividends for the three prior consecutive dividend periods have been paid. Any reduction or elimination of our common stock dividend in the future could adversely affect the market price of our common stock.

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

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

Concerns regarding the downgrade of the U.S. credit rating could have a material adverse effect on our business, financial condition and liquidity.

Standard & Poor's downgrade of the U.S. government's sovereign credit rating and of the credit ratings of instruments issued, insured or guaranteed by certain related institutions, agencies and instrumentalities could result in risks to us

and general economic conditions that we are not able to predict.

On August 5, 2011, Standard & Poor's downgraded the United States long-term debt rating from AAA to AA+. On August 8, 2011, Standard & Poor's downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. These downgrades could adversely affect the market value of certain of instruments that we hold, and could adversely impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. We cannot predict if, when or how these changes to the credit ratings will affect economic conditions. This ratings downgrade could result in a significant adverse impact to us, and could have a material adverse effect on our business, financial condition and liquidity. Because of the unprecedented nature of negative credit rating actions with respect to U.S. government obligations, the ultimate impact on our business, financial condition and liquidity are unpredictable and may not be immediately apparent.

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Risks Relating to Our Class A Common Stock

Our dividend policy may change.

Although we have historically paid dividends to our stockholders, we have no obligation to continue doing so and may change our dividend policy at any time without notice to our stockholders. Holders of our common stock are only entitled to receive such cash dividends as our Board may declare out of funds legally available for such payments. Furthermore, consistent with our strategic plans, growth initiatives, capital availability, projected liquidity needs and other factors, we have made and adopted and will continue to make and adopt, capital management decisions and policies that could adversely impact the amount of dividends paid to our stockholders.

The trading volume in our Class A Common Stock has been limited, and an active trading market may not develop.

Our Class A common stock is currently traded on The NASDAQ Global Select Market. Our Class A common stock is thinly-traded and has substantially less liquidity than the average trading market for many other publicly-traded financial institutions and other companies. Therefore, investors have limited opportunities to sell their shares of Class A common stock in the open market. Limited trading of our Class A common stock also contributes to more volatile price fluctuations. An active trading market for our Class A common stock may never develop or be sustained, which could affect your ability to sell your shares and could depress the market price of your shares. Approximately 45% of our outstanding common stock is owned by members of the Scott family, our executive officers and our directors. The substantial amount of stock owned by these individuals may adversely affect the development of an active and liquid trading market.

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

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

- prevailing market conditions;
- our historical performance and capital structure;
- estimates of our business potential and earnings prospects;
- an overall assessment of our management; and
- the consideration of these factors in relation to market valuation of companies in related businesses.

At times the stock markets, including the NASDAQ Stock Market, on which our Class A common stock is listed, may experience significant price and volume fluctuations. As a result, the market price of our Class A common stock is likely to be similarly volatile and investors in our Class A common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

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

Members of the Scott family control in excess of 80% of the voting power of our outstanding common stock. Due to their holdings of common stock, members of the Scott family are able to determine the outcome of virtually all matters submitted to stockholders for approval, including the election of directors, amendment of our articles of

incorporation (except when a class vote is required by law), any merger or consolidation requiring common stockholder approval and the sale of all or substantially all of the company's assets. Accordingly, such holders have the ability to prevent change in control transactions as long as they maintain voting control of the company.

In addition, because these holders will have the ability to elect all of our directors they will be able to control our policies and operations, including the appointment of management, future issuances of our common stock or other securities, the payments of dividends on our common stock and entering into extraordinary transactions, and their interests may not in all cases be aligned with your interests. Further, because of our dual class structure, members of the Scott family will continue to be able to control all matters submitted to our stockholder for approval even if they come to own less than 50% of the total outstanding shares of our common stock. The Scott family members have entered into a stockholder agreement giving family

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members a right of first refusal to purchase shares of Class B common stock that are intended to be sold or transferred, subject to certain exceptions, by other family members. This agreement may have the effect of continuing ownership of the Class B common stock and control within the Scott family. This concentrated control will limit your ability to influence corporate matters. As a result, the market price of our Class A common stock could be adversely affected.

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

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

An investment in our Class A common stock is not an insured deposit.

Our Class A common stock is not a bank savings account or deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or any other public or private entity. As a result, holders of our common stock could lose some or all of their investment.

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

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

Our articles of incorporation provide that our board of directors, or Board, may issue up to 95,000 additional shares of preferred stock, in one or more series, without stockholder approval and with such terms, conditions, rights, privileges and preferences as the Board may deem appropriate. In addition, our articles of incorporation provide for staggered terms for our Board and limitations on persons authorized to call a special meeting of stockholders. In addition, certain provisions of Montana law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of our Class A common stock with the opportunity to realize a premium over the then-prevailing market price of such Class A common stock.

Further, the acquisition of specified amounts of our common stock (in some cases, the acquisition or control of more than 5% of our voting stock) may require certain regulatory approvals, including the approval of the Federal Reserve and one or more of our state banking regulatory agencies. The filing of applications with these agencies and the accompanying review process can take several months. Additionally, as discussed above, the holders of the Class B common stock will have voting control of our company. This and the other factors described above may hinder or even prevent a change in control of us, even if a change in control would be beneficial to our stockholders.

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

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

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

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

The Class A common stock is equity and is subordinate to our existing and future indebtedness and to our Series A preferred stock.

Shares of our Class A common stock are equity interests and do not constitute indebtedness. As such, shares of our Class A common stock rank junior to all our indebtedness, including our subordinated term loans, the subordinated debentures held by trusts that have issued trust preferred securities and other non-equity claims on us with respect to assets available to satisfy claims on us. Additionally, holders of our Class A common stock are subject to the prior dividend and liquidation rights of any holders of our Series A preferred stock then outstanding.

In the future, we may attempt to increase our capital resources or, if our Bank's capital ratios fall below the required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of debt or equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Or, we may issue additional debt or equity securities as consideration for future mergers and acquisitions. Such additional debt and equity offerings may place restrictions on our ability to pay dividends on or repurchase our common stock, dilute the holdings of our existing stockholders or reduce the market price of our Class A common stock. Furthermore, acquisitions typically involve the payment of a premium over book and market values and therefore, some dilution of our tangible book value and net income per common stock may occur in connection with any future transaction. Holders of our Class A common stock are not entitled to preemptive rights or other protections against dilution.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices and one of our banking offices are anchor tenants in an eighteen story commercial building located in Billings, Montana. The building is owned by a joint venture partnership in which the Bank is one of two partners, owning a 50% interest in the partnership. We lease approximately 97,313 square feet of office space in the building. We also own a 65,226 square foot building that houses our operations center in Billings, Montana. We provide banking services at 70 additional locations in Montana, Wyoming and western South Dakota, of which 16 properties are leased from independent third parties and 54 properties are owned by us. We believe each of our facilities is suitable and adequate to meet our current operational needs.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Description of Our Capital Stock

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

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

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

At December 31, 2011, we had issued and outstanding 16,443,429 shares of Class A common stock, 26,540,745 shares of Class B common stock and 5,000 shares of preferred stock that have been designated as Series A preferred stock. At December 31, 2011, we also had outstanding stock options to purchase an aggregate of 362,879 shares of our Class A common stock and 3,122,049 shares of our Class B common stock.

Members of the Scott family control in excess of 80% of the voting power of our outstanding common stock. The Scott family members have entered into a stockholder agreement giving family members a right of first refusal to purchase shares of Class B common stock that are intended to be sold or transferred, subject to certain exceptions, by other family members. This agreement may have the effect of continuing ownership of the Class B common stock and control of our Company within the Scott family.

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

Preferred Stock

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

The Company has outstanding 5,000 shares of 6.75% Series A noncumulative redeemable preferred stock, which ranks senior to our Class A common stock and Class B common stock with respect to dividend and liquidation rights. The Series A preferred stock has no voting rights. Holders of the Series A preferred stock are entitled to receive, when and if declared by the Board, noncumulative cash dividends at an annual rate of \$675 per share (based on a 360 day year). In the event full dividends are not paid for three consecutive quarters, the Series A preferred stock holders are entitled to elect two members to our Board. We may, at our option, redeem all or any part of the outstanding Series A preferred stock at any time after January 10, 2013, subject to certain conditions, at a price of \$10,000 per share plus accrued but unpaid dividends at the date fixed for redemption. After January 10, 2018, the Series A preferred stock may be converted, at the option of the holder, into shares of our Class B common stock at a ratio of 320 shares of Class B common stock for every one share of Series A preferred stock.

Common Stock

The holders of our Class A common stock are entitled to one vote per share and the holders of our Class B common stock are entitled to five votes per share on any matter to be voted upon by the stockholders. Holders of Class A

common stock and Class B common stock vote together as a single class on all matters (including the election of directors) submitted to a vote of stockholders, unless otherwise required by law.

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

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

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

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

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

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

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

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

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

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

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

Quarter Ended	High	Low
March 31, 2010	\$16.97	\$15.40
June 30, 2010	16.80	15.05
September 30, 2010	15.83	11.07
December 31, 2010	15.39	12.00
March 31, 2011	15.90	12.99
June 30, 2011	14.74	13.16

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September 30, 2011	14.83	10.08
December 31, 2011	13.41	9.88

As of December 31, 2011, we had 564 record shareholders, including the Wealth Management division of First Interstate Bank as trustee for 1,649,833 shares of Class A common stock held on behalf of 1,061 individual participants in the Savings and Profit Sharing Plan for Employees of First Interstate BancSystem, Inc., or the Savings Plan. The Savings Plan Trustee votes the shares based on the instructions of each participant. In the event the participant does not provide the Savings Plan Trustee with instructions, the Savings Plan Trustee votes those shares in accordance with voting instructions received from a majority of the participants in the plan.

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Dividends

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

Recent quarterly dividends follow:

Dividend Payment	Amount Per Share	Total Cash Dividends
First quarter 2010	\$0.1125	\$3,519,163
Second quarter 2010	0.1125	4,792,655
Third quarter 2010	0.1125	4,796,025
Fourth quarter 2010	0.1125	4,796,835
First quarter 2011	0.1125	4,797,595
Second quarter 2011	0.1125	4,809,901
Third quarter 2011	0.1125	4,811,704
Fourth quarter 2011	0.1125	4,813,801
First quarter 2012	0.1200	5,136,079

Dividend Restrictions

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

Sales of Unregistered Securities

There were no issuances of unregistered securities during the three months ended December 31, 2011.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no purchases made by or on behalf of us or any “affiliated purchasers” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the three months ended December 31, 2011.

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Performance Graph

The performance graph below compares the cumulative total shareholder return on our Class A common stock since our Class A common stock began trading on the Nasdaq Global Select Market on March 23, 2010, as compared with the cumulative total return on equity securities of companies included in the Nasdaq Composite Index and the Nasdaq Bank Index over the same period. The Nasdaq Bank Index is a comparative peer index comprised of financial companies, including banks, savings institutions and related holding companies that perform banking-related functions, listed on the Nasdaq Stock Market. The Nasdaq Composite Index is a comparative broad market index comprised of all domestic and international common stocks listed on the Nasdaq Stock Market. This graph assumes a \$100.00 investment in our common stock on the first day of trading, and reinvestment of dividends on the date of payment without commissions. The plot points on the graph were provided by SNL Financial LC, Charlottesville, VA. The performance graph represents past performance, which may not be indicative of the future performance of our common stock.

Index	Period Ending								
	3/23/10	3/31/10	6/30/10	9/30/10	12/31/10	3/31/11	6/30/11	9/30/11	12/31/11
First Interstate BancSystem, Inc.	\$ 100.00	112.84	110.02	94.93	108.27	97.42	106.40	78.10	95.89
NASDAQ Composite	100.00	99.30	87.56	98.62	110.78	116.38	116.35	101.57	109.92
NASDAQ Bank	100.00	98.48	89.04	87.90	98.86	98.32	95.03	75.44	88.48

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Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data with respect to our consolidated financial position as of December 31, 2011 and 2010, and the results of our operations for the fiscal years ended December 31, 2011, 2010 and 2009, has been derived from our audited consolidated financial statements included in Part IV, Item 15. This data should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and such consolidated financial statements, including the notes thereto. The selected consolidated financial data with respect to our consolidated financial position as of December 31, 2009, 2008 and 2007, and the results of our operations for the fiscal years ended December 31, 2008 and 2007, has been derived from our audited consolidated financial statements not included herein.

Five Year Summary

(Dollars in thousands except share and per share data)

As of or for the year ended December 31,	2011	2010	2009	2008 (1)	2007
Selected Balance Sheet Data:					
Net loans	\$4,073,968	\$4,247,429	\$4,424,974	\$4,685,497	\$3,506,625
Investment securities	2,169,645	1,933,403	1,446,280	1,072,276	1,128,657
Total assets	7,325,527	7,500,970	7,137,653	6,628,347	5,216,797
Deposits	5,826,971	5,925,713	5,824,056	5,174,259	3,999,401
Securities sold under repurchase agreements	516,243	620,154	474,141	525,501	604,762
Long-term debt	37,200	37,502	73,353	84,148	5,145
Subordinated debentures held by subsidiary trusts	123,715	123,715	123,715	123,715	103,095
Preferred stockholders' equity	50,000	50,000	50,000	50,000	—
Common stockholders' equity	\$721,020	\$686,802	\$524,434	\$489,062	\$444,443
Selected Income Statement Data:					
Interest income	\$292,883	\$314,546	\$328,034	\$355,919	\$325,557
Interest expense	42,031	63,107	84,898	120,542	125,954
Net interest income	250,852	251,439	243,136	235,377	199,603
Provision for loan losses	58,151	66,900	45,300	33,356	7,750
Net interest income after provision for loan losses	192,701	184,539	197,836	202,021	191,853
Non-interest income	91,872	90,911	100,690	128,597	92,367
Non-interest expense	218,412	221,004	217,710	222,541	178,786
Income before income taxes	66,161	54,446	80,816	108,077	105,434
Income tax expense	21,615	17,090	26,953	37,429	36,793
Net income	44,546	37,356	53,863	70,648	68,641
Preferred stock dividends	3,422	3,422	3,422	3,347	—
Net income available to common shareholders	\$41,124	\$33,934	\$50,441	\$67,301	\$68,641
Common Share Data:					
Earnings per share:					
Basic	\$0.96	\$0.85	\$1.61	\$2.14	\$2.11
Diluted	0.96	0.85	1.59	2.10	2.06
Dividends per share	0.45	0.45	0.50	0.65	0.74
Book value per share (2)	16.77	16.05	16.73	15.50	13.88
Tangible book value per share (3)	12.33	11.55	10.53	9.27	12.70
Weighted average shares outstanding:					
Basic	42,749,526	39,907,640	31,335,668	31,484,136	32,507,216
Diluted	42,847,196	40,127,365	31,678,500	32,112,672	33,289,920

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Five Year Summary (continued)

(Dollars in thousands except share and per share data)

As of or for the year ended December 31,	2011	2010	2009	2008 (1)	2007	
Financial Ratios:						
Return on average assets	0.61	%0.52	%0.79	%1.12	%1.37	%
Return on average common stockholders' equity	5.86	5.22	9.98	14.73	16.14	
Average stockholders' equity to average assets	10.25	9.67	8.16	7.98	8.52	
Yield on average earning assets	4.43	4.85	5.44	6.37	7.21	
Cost of average interest bearing liabilities	0.78	1.15	1.63	2.50	3.43	
Interest rate spread	3.65	3.70	3.81	3.87	3.78	
Net interest margin (4)	3.80	3.89	4.05	4.25	4.46	
Efficiency ratio (5)	63.73	64.55	63.32	61.14	61.23	
Common stock dividend payout ratio (6)	46.88	52.94	31.06	30.37	35.07	
Loan to deposit ratio	71.85	73.71	77.75	92.24	88.99	
Asset Quality Ratios						
Non-performing loans to total loans (7)	5.77	%4.82	%2.75	%1.90	%0.98	%
Non-performing assets to total loans and other real estate owned (OREO) (8)	6.60	5.55	3.57	2.03	1.00	
Non-performing assets to total assets	3.81	3.26	2.28	1.46	0.68	
Allowance for loan losses to total loans	2.69	2.76	2.28	1.83	1.47	
Allowance for loan losses to non-performing loans	46.62	57.19	82.64	96.03	150.66	
Net charge-offs to average loans	1.54	1.10	0.63	0.28	0.08	
Capital Ratios:						
Tangible common stockholders equity to tangible assets (9)	7.43	%6.76	%4.76	%4.55	%7.85	%
Net tangible common stockholders equity to tangible assets (10)	8.28	7.59	5.63	5.49	7.95	
Tier 1 common capital to total risk weighted assets (11)	11.04	10.12	6.43	5.35	9.95	
Leverage ratio	9.84	9.27	7.30	7.13	9.92	
Tier 1 risk-based capital	14.55	13.53	9.74	8.57	12.39	
Total risk-based capital	16.54	15.50	11.68	10.49	13.64	

(1) Significant changes in 2008, as compared to 2007, are primarily attributable to bank acquisitions in 2008.

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

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

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

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

(6)

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

(7) Non-performing loans include non-accrual loans, loans past due 90 days or more and still accruing interest and troubled debt restructurings.

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

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

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

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

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Non-GAAP Financial Measures

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

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

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

As of December 31,	2011	2010	2009	2008	2007
Preferred stockholders' equity	\$50,000	\$50,000	\$50,000	\$50,000	\$—
Common stockholders' equity	721,020	686,802	524,434	489,062	444,443
Total stockholders' equity	771,020	736,802	574,434	539,062	444,443
Less goodwill and other intangible assets	191,065	192,518	194,273	196,667	37,637
Less preferred stock	50,000	50,000	50,000	50,000	—
Tangible common stockholders' equity	529,955	494,284	330,161	292,395	406,806
Add deferred tax liability for deductible goodwill	60,499	60,499	60,499	60,499	4,907
Net tangible common stockholders' equity	\$590,454	\$554,783	\$390,660	\$352,894	\$411,713
Total assets	\$7,325,527	\$7,500,970	\$7,137,653	\$6,628,347	\$5,216,797
Less goodwill and other intangible assets (excluding mortgage servicing rights)	191,065	192,518	194,273	196,667	37,637
Tangible assets	\$7,134,462	\$7,308,452	\$6,943,380	\$6,431,680	\$5,179,160
Number of common shares outstanding	42,984,174	42,800,694	31,349,588	31,550,076	32,024,164
Book value per common share	\$16.77	\$16.05	\$16.73	\$15.50	\$13.88
Tangible book value per common share	12.33	11.55	10.53	9.27	12.70
Net tangible book value per common share	13.74	12.96	12.46	11.19	12.86
Tangible common stockholders' equity to tangible assets	7.43	%6.76	%4.76	%4.55	%7.85
Net tangible common stockholders' equity to tangible assets	8.28	%7.59	%5.63	%5.49	%7.95

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

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

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

- credit losses;
- concentrations of real estate loans;
 - economic and market developments, including inflation;
- commercial loan risk;
- adequacy of the allowance for loan losses;
- impairment of goodwill;
- changes in interest rates;
- access to low-cost funding sources;
- increases in deposit insurance premiums;
- inability to grow business;
- adverse economic conditions affecting Montana, Wyoming and western South Dakota;
- governmental regulation and changes in regulatory, tax and accounting rules and interpretations;
- sweeping changes in regulation of financial institutions due to passage of the Dodd-Frank Act;
- changes in or noncompliance with governmental regulations;
- effects of recent legislative and regulatory efforts to stabilize financial markets;
- dependence on the Company’s management team;
- ability to attract and retain qualified employees;
- failure of technology;
- reliance on external vendors;
- disruption of vital infrastructure and other business interruptions;
- illiquidity in the credit markets;
- inability to meet liquidity requirements;
- lack of acquisition candidates;
- failure to manage growth;
- competition;
- inability to manage risks in turbulent and dynamic market conditions;
- ineffective internal operational controls;
- environmental remediation and other costs;
- failure to effectively implement technology-driven products and services;
- litigation pertaining to fiduciary responsibilities;
- capital required to support the Company’s bank subsidiary;
- soundness of other financial institutions;

• impact of Basel III capital standards and forthcoming new capital rules proposed for U.S. banks;
• inability of our bank subsidiary to pay dividends;

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change in dividend policy;
lack of public market for our Class A common stock;
volatility of Class A common stock;
voting control of Class B stockholders;
decline in market price of Class A common stock;
dilution as a result of future equity issuances;
uninsured nature of any investment in Class A common stock;
anti-takeover provisions;
controlled company status;
subordination of common stock to Company debt;
uncertainties associated with introducing new products or lines of business; and,
downgrade of the U.S. credit rating

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

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

Executive Overview

We are a financial and bank holding company headquartered in Billings, Montana. As of December 31, 2011, we had consolidated assets of \$7.3 billion, deposits of \$5.8 billion, loans of \$4.2 billion and total stockholders' equity of \$771 million. We currently operate 71 banking offices in 42 communities located in Montana, Wyoming and western South Dakota. Through the Bank, we deliver a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities throughout our market areas. Our customers participate in a wide variety of industries, including energy, tourism, agriculture, healthcare, professional services, education, governmental services, construction, mining, retail and wholesale trade.

Our Business

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

Our loan portfolio consists of a mix of real estate, consumer, commercial, agricultural and other loans, including fixed and variable rate loans. Our real estate loans comprise commercial real estate, construction (including residential, commercial and land development loans), residential, agricultural and other real estate loans. Fluctuations in the loan portfolio are directly related to the economies of the communities we serve. While each loan originated generally must

meet minimum underwriting standards established in our credit policies, lending officers are granted discretion within pre-approved limits in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area. We fund our loan portfolio primarily with the core deposits from our customers, generally without utilizing brokered deposits and with minimal reliance on wholesale funding sources. For additional information about our underwriting standards and loan approval process, see Business—Lending Activities, included in Part I, Item 1 of this report.

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Recent Developments

On July 15, 2011, the Board of Governors of the Federal Reserve System, or FRB, and the Federal Deposit Insurance Corporation, or FDIC, issued separate final rules to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, which mandated repeal of the prohibition against paying interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts beginning July 21, 2011. This change did not have a significant impact on our interest expense, consolidated financial statements, results of operations or liquidity in 2011.

On June 29, 2011, the FRB issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. This rule, Regulation II - Debit Card Interchange Fees and Routing, implements provisions of the Dodd-Frank Act. The rule, which became effective October 1, 2011, reduces the maximum allowable interchange fee per transaction for issuers with over \$10 billion in assets. Issuers with less than \$10 billion in assets, like us, are exempt from the debit card interchange fee limitations. Under this exemption, we do not anticipate any immediate, significant impact to interchange revenues. We recorded debit card interchange fees of \$11.6 million during 2011.

In February 2011, the FDIC issued a final rule that, among other things, modified the definition of an institution's deposit insurance assessment base and revised assessment rate schedules. The final rule changes the deposit insurance assessment base to an institution's average total assets less its average tangible equity, with adjustments for brokered deposits, unsecured debt and for custodial banks and banks that primarily provide services to other banks. These changes, which became effective April 1, 2011, resulted in a reduction in our FDIC insurance premiums.

Asset Quality

Non-performing assets peaked during second quarter 2011 at \$292 million, and ended the year at \$279 million, or 6.60% of total loans and OREO, as compared to \$244 million, or 5.55% of total loans and OREO, as of December 31, 2010. Approximately 42% of our non-performing loans were construction loans and 36% were commercial real estates loans as of December 31, 2011. Additionally, as of December 31, 2011, approximately 39% of our non-performing loans and 67% of our OREO properties were located in markets dependent upon second home sales and resort communities, including the Flathead area around Kalispell, Montana, the Gallatin Valley area around Bozeman, Montana and the Jackson, Wyoming market area.

Loan charge-offs, net of recoveries, totaled \$66 million during 2011, as compared to \$49 million during 2010. During fourth quarter 2011, net charge-offs peaked at \$21 million for the three month period. Net charge-offs are expected to remain high in future quarters as problem loans continue to work through the credit cycle, but not at the elevated level experienced during fourth quarter 2011.

Although economic conditions remained challenging during 2011, there were some tangible signs that economic recovery is underway in many of our market areas. Unemployment rates in Montana, Wyoming and South Dakota continue to compare favorably to national averages and decreased in 2011, as compared to 2010.

The table below presents average seasonally-adjusted unemployment rates in the three states in which we operate and nationally for the periods indicated.

	December 2011	December 2010	December 2009
Montana	6.8%	7.4%	7.0%
Wyoming	5.8%	6.4%	7.7%
South Dakota	4.2%	4.7%	5.2%

National	8.5%	9.4%	9.9%
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Additionally, during the first nine months of 2011, there was a combined 10.9% decrease in individual bankruptcy filings in Montana, Wyoming and South Dakota, as compared to the same period in 2010, while nationally, individual bankruptcy filings decreased 10.3% during the same period.

Our criticized loans decreased during 2011, ending the year at \$631 million, a \$112 million, or 15.1%, decrease from \$743 million as of December 31, 2010. Based on our assessment of the adequacy of our allowance for loan losses, we recorded provisions for loan losses of \$58.2 million during 2011, compared to \$66.9 million during 2010. Management expects provisions for loan losses to continue to decline as credit quality improves.

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Goodwill

Our annual goodwill impairment test is performed each year as of July 1st. Upon completion of this year's test, the estimated fair value of net assets was greater than carrying value of the Company. During the last half of 2011, there was a significant and prolonged decrease in market prices for bank stocks, including our common stock. As a result, we determined that an interim impairment test was warranted. We engaged a third party valuation consultant to assist us in our determination of the fair value of goodwill as of December 31, 2011. Based upon this valuation, we determined that the fair value of our net assets was greater than the carrying value of the Company as of December 31, 2011 and no impairment existed. We will continue to monitor our performance and evaluate our goodwill for impairment annually or more frequently as needed.

Primary Factors Used in Evaluating Our Business

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

Results of Operations

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

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

Finally, we seek to increase our net income and provide favorable shareholder returns over time, and we evaluate our net income relative to the performance of other banks and bank holding companies on factors that include return on

average assets, return on average equity, and consistency and rates of growth in our earnings.

Financial Condition

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

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

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

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

Critical Accounting Estimates and Significant Accounting Policies

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

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

Allowance for Loan Losses

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

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

requires significant judgment and the use of subjective measurements, including management's assessment of the internal risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends and the impact of current local, regional and national economic factors on the quality of the loan portfolio. Changes in these estimates and assumptions are possible and may have a material impact on our allowance, and therefore our consolidated financial statements or results of operations. The allowance for loan losses is maintained at an amount we believe is sufficient to provide for estimated losses inherent in our loan portfolio at each balance sheet date, and fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses. Management monitors qualitative and quantitative trends in the loan portfolio, including changes in the levels of past due, internally classified and non-performing loans. See "Notes to Consolidated Financial Statements — Summary of Significant Accounting Policies" for a description of the methodology used to determine the allowance for loan losses. A discussion of the factors driving changes in the amount of the allowance for loan losses is included herein under the heading "—Financial Condition—Allowance for Loan Losses." See also Part I, Item 1A, "Risk Factors—Risks Relating to the Market and Our Business."

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Goodwill

The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely impairment has occurred. In testing for impairment, the fair value of net assets is estimated based on an analysis of our market value, discounted cash flows and peer values. Determining the fair value of goodwill is considered a critical accounting estimate because of its sensitivity to market-based economics. In addition, any allocation of the fair value of goodwill to assets and liabilities requires significant management judgment and the use of subjective measurements. Variability in market conditions and key assumptions or subjective measurements used to estimate and allocate fair value are reasonably possible and could have a material impact on our consolidated financial statements or results of operations. For additional information regarding goodwill, see "Executive Overview" above. See also "Notes to Consolidated Financial Statements-Summary of Significant Accounting Policies," included in Part IV, Item 15 of this report and "Risk Factors-Risks Relating to the Market and Our Business," included in Part I, Item 1A of this report.

Our annual goodwill impairment test is performed each year as of July 1st. Upon completion of this year's test, the estimated fair value of net assets was greater than carrying value of the Company. During the last half of 2011, there was a significant and prolonged decrease in market prices for bank stocks, including our common stock. As a result, we determined that an interim impairment test was warranted. We engaged a third party valuation consultant to assist us in our determination of the fair value of goodwill as of December 31, 2011. Based upon this valuation, we determined that the fair value of our net assets was greater than the carrying value of the Company as of December 31, 2011 and no impairment existed. We will continue to monitor our performance and evaluate our goodwill for impairment annually or more frequently as needed.

Other Real Estate Owned

Real estate acquired in satisfaction of loans is initially carried at current fair value less estimated selling costs. Any excess of loan carrying value over the fair value of the real estate acquired is recorded as a charge to the allowance for loan losses. Subsequent declines in fair value less estimated selling costs are included in OREO expense. Subsequent increases in fair value less estimated selling costs are recorded as a reduction in OREO expense to the extent of recognized losses. Determining the fair value of OREO is considered a critical accounting estimate due to the assets' sensitivity to changes in estimates and assumptions used. Changes in these estimates and assumptions are reasonably possible and may have a material impact on our consolidated financial statements, liquidity or results of operations. For additional information regarding OREO, see "Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies" and "Notes to Consolidated Financial Statements—Other Real Estate Owned," included in Part IV, Item 15 of this report.

Results of Operations

The following discussion of our results of operations compares the years ended December 31, 2011 to December 31, 2010 and the years ended December 31, 2010 to December 31, 2009.

Net Interest Income

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

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

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

Average Balance Sheets, Yields and Rates

(Dollars in thousands)

	Year Ended December 31,			2010			2009		
	2011			Average	Interest	Average	Average	Interest	Average
	Average	Interest	Average	Balance	Interest	Rate	Balance	Interest	Rate
	Balance		Rate						
Interest earning assets:									
Loans (1) (2)	\$4,275,128	\$247,492	5.79 %	\$4,482,219	\$268,279	5.99 %	\$4,660,189	\$281,799	6.05 %
U.S. government agency and mortgage-backed securities	1,878,442	39,911	2.12	1,529,628	41,824	2.73	1,016,632	41,887	4.12
Federal funds sold	2,231	13	0.58	6,238	22	0.35	105,423	253	0.24
Other securities	191	—	—	376	—	—	1,556	50	3.21
Tax exempt securities (2)	147,559	8,884	6.02	133,207	7,802	5.86	134,373	8,398	6.25
Interest bearing deposits in banks	414,375	1,050	0.25	429,657	1,093	0.25	199,316	520	0.26
Total interest earnings assets	6,717,926	297,350	4.43	6,581,325	319,020	4.85	6,117,489	332,907	5.44
Non-earning assets	618,454			665,012			687,110		
Total assets	\$7,336,380			\$7,246,337			\$6,804,599		
Interest bearing liabilities:									
Demand deposits	\$1,269,676	\$3,057	0.24 %	\$1,135,208	\$3,430	0.30 %	\$1,083,054	\$4,068	0.38 %
Savings deposits	1,714,294	6,448	0.38	1,530,844	8,934	0.58	1,321,625	10,033	0.76
Time deposits	1,737,401	24,028	1.38	2,143,899	41,585	1.94	2,129,313	59,125	2.78
Repurchase agreements	500,882	695	0.14	480,276	879	0.18	422,713	776	0.18
Other borrowed funds (3)	5,582	—	—	5,779	3	0.05	57,016	1,367	2.40
Long-term debt	37,442	1,975	5.27	46,024	2,433	5.29	79,812	3,249	4.07
Subordinated debentures held by subsidiary trusts	123,715	5,828	4.71	123,715	5,843	4.72	123,715	6,280	5.08
Total interest bearing liabilities	5,388,992	42,031	0.78	5,465,745	63,107	1.15	5,217,248	84,898	1.63
Non-interest bearing deposits	1,146,535			1,021,409			965,226		
Other non-interest bearing liabilities	48,532			58,778			66,862		
Stockholders' equity	752,321			700,405			555,263		
	\$7,336,380			\$7,246,337			\$6,804,599		

Total liabilities and stockholders' equity			
Net FTE interest income	\$255,319	\$255,913	\$248,009
Less FTE adjustments (2)	(4,467)	(4,474)	(4,873)
Net interest income from consolidated statements of income	\$250,852	\$251,439	\$243,136
Interest rate spread	3.65 %	3.70 %	3.81 %
Net FTE interest margin (4)	3.80 %	3.89 %	4.05 %

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

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

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

Net FTE interest margin during the period equals (i) the difference between interest income on interest earning (4) assets and the interest expense on interest bearing liabilities, divided by (ii) average interest earning assets for the period.

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Our net interest income on a fully taxable equivalent, or FTE, basis decreased \$594 thousand, or less than 1.0%, to \$255.3 million in 2011, compared to \$255.9 million in 2010, and our net FTE interest margin ratio decreased 9 basis points to 3.80% in 2011, compared to 3.89% in 2010. Decrease in net FTE interest income and compression in our net FTE interest margin ratio were attributable to lower yields earned on our investment and loan portfolios and lower outstanding loan balances, the effects of which were substantially offset by a 37 basis point reduction in the cost of interest bearing liabilities.

Deposit growth combined with corresponding increases in interest earning assets resulted in an increase in net interest income, on a fully taxable equivalent, or FTE, basis in 2010. Our FTE net interest income increased \$7.9 million, or 3.2%, to \$255.9 million in 2010, compared to \$248.0 million in 2009. Despite growth in net FTE interest income, our net FTE interest margin decreased 16 basis points to 3.89% in 2010, compared to 4.05% in 2009. Deposit growth coupled with low demand for loans resulted in a shift in the mix of interest earning assets from higher-yielding loans to lower-yielding investment securities and interest bearing deposits in banks, which compressed our FTE net interest margin ratio. The remaining compression in net interest margin ratio was attributable to lower yields earned on our investment security and loan portfolios, and was partially offset by a 48 basis point reduction in funding costs during 2010. IPO proceeds of \$119 million, net of IPO costs and after the repayment of our variable rate term notes, received during the second quarter of 2010 were initially invested in interest bearing deposits in banks, which yielded 25 basis points during 2010.

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

Analysis of Interest Changes Due To Volume and Rates

(Dollars in thousands)

	Year Ended December 31, 2011			Year Ended December 31, 2010			Year Ended December 31, 2009		
	compared with December 31, 2010			compared with December 31, 2009			compared with December 31, 2008		
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
Interest earning assets:									
Loans (1)	\$(12,395)	\$(8,392)	\$(20,787)	\$(10,762)	\$(2,758)	\$(13,520)	\$8,963	\$(34,140)	\$(25,177)
U.S. government agency and mortgage-backed securities	9,537	(11,450)	(1,913)	21,136	(21,199)	(63)	4,349	(5,798)	(1,449)
Federal funds sold	(14)	)5	(9)	(238)	)7	(231)	982	(1,809)	(827)
Other securities	—	—	—	(38)	(12)	(50)	(148)	(16)	(164)
Tax exempt securities (1)	841	241	1,082	(73)	(523)	(596)	(853)	(131)	(984)
Interest bearing deposits in banks	(39)	)4	(43)	601	(28)	)573	6,212	(5,883)	)329
Total change	(2,070)	)19,600	(21,670)	10,626	(24,513)	(13,887)	19,505	(47,777)	(28,272)
Interest bearing liabilities:									
Demand deposits	406	(779)	(373)	196	(834)	(638)	(437)	(8,461)	(8,898)
Savings deposits	1,071	(3,557)	(2,486)	1,588	(2,687)	(1,099)	2,855	(11,276)	(8,421)
Time deposits	(7,885))9,672	(17,557)	405	(17,945)	(17,540)	17,068	(23,386)	(6,318)
Repurchase agreements	38	(222)	(184)	106	(3))103	(1,640)	(5,278)	(6,918)

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Borrowings (2)	—	(3)	(3)	(1,228)	(136)	(1,364)	(1,724)	(39)	(1,763)	
Long-term debt	(454)	(4)	(458)	(1,375)	559		(816)	(374)	(955)	(1,329)
Subordinated debentures held by subsidiary trusts	—		(15	)	(15	)	—		(437	)	(437	)	26		(2,023	)	(1,997)
Total change	(6,824	)	(14,252	)	(21,076	)	(308	)	(21,483	)	(21,791	)	15,774		(51,418	)	(35,644)
Increase (decrease) in FTE net interest income	\$4,754		\$(5,348)		\$(594	)	\$10,934		\$(3,030)		\$7,904		\$3,731		\$3,641		\$7,372	

- (1) Interest income and average rates for tax exempt loans and securities are presented on a FTE basis.
(2) Includes interest on federal funds purchased and other borrowed funds.

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Provision for Loan Losses

The provision for loan losses creates an allowance for loan losses known and inherent in the loan portfolio at each balance sheet date. We perform a quarterly assessment of the risks inherent in our loan portfolio, as well as a detailed review of each significant loan with identified weaknesses. Based on this analysis, we record a provision for loan losses in order to maintain the allowance for loan losses at appropriate levels. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. Fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses. Ultimate loan losses may vary from current estimates. For additional information concerning the provision for loan losses, see "—Critical Accounting Estimates and Significant Accounting Policies" included herein.

Our provision for loan losses decreased \$8.7 million, or 13.1%, to \$58.2 million in 2011, as compared to \$66.9 million in 2010, and increased \$21.6 million, or 47.7%, to \$66.9 million in 2010, as compared to \$45.3 million in 2009. Fluctuations in the provision for loan losses reflect management's estimate of possible loan loss based upon evaluation of the borrowers' ability to repay, collateral underlying loans, loan loss trends and estimated effects of current economic conditions on our loan portfolio. The level of provision for loan losses in 2011 is reflective of decreases in the level of criticized loans and overall loan volume in 2011, as compared to 2010. The increase in provision for loan losses in 2010, as compared to 2009, was reflective of increases in criticized loans and weakening economic conditions both nationally and in our market areas. Weak economic conditions particularly affected the performance of many of our land development credit relationships, especially in market areas with economies dependent upon resort and second home communities. For additional information concerning non-performing assets, see "—Financial Condition—Non-Performing Assets" herein.

Non-interest Income

Our principal sources of non-interest income include other service charges, commissions and fees; income from the origination and sale of loans; service charges on deposit accounts; and wealth management revenues. Non-interest income increased \$961 thousand, or 1.1%, to \$91.9 million in 2011, from \$90.9 million in 2010. Non-interest income decreased \$9.8 million, or 9.7%, to \$90.9 million in 2010, from \$100.7 million in 2009. Significant components of these fluctuations are discussed below.

Other service charges, commissions and fees primarily include debit and credit card interchange income, mortgage servicing fees, insurance and other commissions and ATM service charge revenues. Other service charges, commissions and fees increased \$2.2 million, or 7.4%, to \$31.7 million in 2011, from \$29.5 million in 2010, primarily due to increases in debit and credit card interchange income resulting from higher transaction volumes. Other service charges, commission and fees increased \$747 thousand, or 2.6%, to \$29.5 million in 2010, from \$28.7 million in 2009, primarily due to higher debit card interchange income resulting from increased volumes of debit card transactions.

On June 29, 2011, the FRB issued a final rule that, among other things, reduces the maximum allowable interchange fee per transaction for issuers with over \$10 billion in assets. Issuers with less than \$10 billion in assets, like us, are exempt from the debit card interchange fee limitations. As such, the Company does not anticipate any immediate, significant impact to its interchange income. For additional information regarding this final rule, see "—Recent Developments" herein.

Income from the origination and sale of loans includes origination and processing fees on residential real estate loans held for sale and gains on residential real estate loans sold to third parties. Fluctuations in market interest rates have a significant impact on revenues generated from the origination and sale of loans. Higher interest rates can reduce the demand for home loans and loans to refinance existing mortgages. Conversely, lower interest rates generally stimulate refinancing and home loan origination. Income from the origination and sale of loans decreased \$1.7 million, or 7.5%, to \$21.2 million in 2011, from \$22.9 million in 2010, primarily due to declines in refinancing activity. Although mortgage rates were generally stable in 2011, as compared to 2010, and decreased in the latter part of 2011, refinancing activity declined as many homeowners who qualified for refinancing did so in 2010. Refinancing activity accounted for approximately 56% of the Company's residential real estate loan originations during 2011, as compared to 60% during 2010.

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Income from the origination and sale of loans decreased \$8.1 million, or 26.1%, to \$22.9 million in 2010, from \$30.9 million in 2009, due to a substantial decline in refinancing activity from early 2009. Refinancing activity accounted for approximately 60% of the Company's residential real estate loan originations during 2010, as compared to 71% during 2009. Decreases in refinancing activity were partially offset by increases in originations of new loans to purchase homes, which increased 1.6% during 2010, as compared to 2009.

Service charges on deposit accounts decreased \$534 thousand, or 2.9%, to \$17.6 million in 2011, from \$18.2 million in 2010 and \$2.1 million, or 10.5%, to \$18.2 million in 2010, from \$20.3 million in 2009. These decreases are primarily due a reduction in overdraft fees due to changes in customer utilization.

Wealth management revenues are principally comprised of fees earned for management of trust assets and investment services revenues. Wealth management revenues increased \$770 thousand, or 6.2% to \$13.2 million in 2011, from \$12.4 million in 2010, and \$1.6 million, or 14.5% to \$12.4 million in 2010, from \$10.8 million in 2009. These increases are primarily due to the addition of new trust customers combined with increases in the market values of new and existing assets under trust management. Also contributing to the increase in 2010, as compared to 2009, was the introduction of revised fee schedules in April 2009.

During 2011, we recorded net gains on the disposal of investment securities of \$1.5 million, as compared to net gains of \$170 thousand in 2010. Net gains on disposal of investment securities in 2011 were primarily due to recognition of unamortized discounts on investment securities called by the issuing agencies during fourth quarter.

Other income primarily includes company-owned life insurance revenues, net gains or losses on securities held under deferred compensation plans, check printing income, agency stock dividends and gains on sales of miscellaneous assets. Other income decreased \$1.1 million, or 14.5%, to \$6.7 million in 2011, from \$7.8 million in 2010, primarily due to fluctuations of values of securities held under deferred compensation plans. During 2011, market value adjustments for securities held under deferred compensation plans resulted in reductions in other income of \$161 thousand, as compared to increases in other income of \$545 thousand in 2010.

Other income decreased \$1.9 million, or 19.8%, to \$7.8 million in 2010, from \$9.7 million in 2009, primarily due to the recognition of a \$2.1 million one-time gain on the sale of Visa Class B common shares during third quarter 2009. Decreases in other income were partially offset by a \$249 thousand one-time gain on the sale of our student loan portfolio recognized during third quarter 2010.

Non-interest Expense

Non-interest expense decreased \$2.6 million, or 1.2%, to \$218.4 million in 2011, from \$221.0 million in 2010. Non-interest expense increased \$3.3 million, or 1.5%, to \$221.0 million in 2010, from \$217.7 million in 2009. Significant components of these fluctuations are discussed below.

Salaries, wages and employee benefits expense decreased \$1.3 million, or 1.2%, to \$111.4 million in 2011 compared to \$112.7 million in 2010 primarily due to lower group health insurance costs, reductions in the market values of securities held under deferred compensation plans and reductions in full-time equivalent employees. These decreases were partially offset by normal inflationary wage increases and higher incentive bonus accruals reflective of our improved performance in 2011.

Salaries, wages and employee benefits expense decreased \$902 thousand, or less than 1.0%, to \$112.7 million in 2010 compared to \$113.6 million for the same period in 2009. Normal inflationary wage increases and increases in group health insurance and stock-based compensation expenses were more than offset by reductions in sales commissions

and bonus accruals in 2010.

OREO expense is recorded net of OREO income. Net OREO expense increased \$982 thousand, or 12.8%, to \$8.7 million in 2011, as compared to \$7.7 million in 2010, and increased \$1.3 million, or 19.9%, to \$7.7 million in 2010, as compared to \$6.4 million in 2009. Increases in net OREO expense between periods was primarily due to write-downs of the estimated fair value of OREO properties. Net OREO expense during 2011 included \$1.8 million of net operating expenses, \$7.5 million of fair value write-downs and net gains on the sale of OREO properties of \$567 thousand, as compared to \$1.7 million of net operating expenses, \$6.7 million of fair value write-downs and net gains on the sale of OREO properties of \$708 thousand in 2010. Approximately 72% of the fair value write-downs recorded during 2011 related to properties in the Flathead, Gallatin Valley and Jackson market areas, as compared to 79% in 2010 and 78% in 2009.

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FDIC insurance premiums decreased \$2.7 million, or 27.0%, to \$7.3 million in 2011, from \$10.0 million in 2010. In February 2011, the FDIC issued a final rule that, among other things, modified the definition of an institution's deposit insurance assessment base and revised assessment rate schedules. These changes, which became effective April 1, 2011, reduced the Company's FDIC insurance premiums in 2011. FDIC insurance premiums decreased \$2.1 million, or 17.2%, to \$10.0 million in 2010, from \$12.1 million in 2009, primarily due to a special FDIC insurance assessment levied during second quarter 2009, which was applicable to all insured depository institutions, and resulted in additional FDIC insurance expense of \$3.1 million. In addition, effective July 1, 2010, we opted out of participation in the Transaction Account Guarantee component of the Temporary Liquidity Guaranty Program, which further reduced our FDIC insurance premiums beginning in third quarter 2010.

Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. Mortgage servicing rights amortization decreased \$1.4 million, or 30.1%, to \$3.2 million in 2011, from \$4.6 million in 2010 and decreased \$3.0 million, or 39.0%, to \$4.6 million in 2010, from \$7.6 million in 2009, primarily due to lower prepayment rates and the December 2010 sale of mortgage servicing rights with a carrying value of \$5 million.

Mortgage servicing rights are evaluated quarterly for impairment based on the fair value of the mortgage servicing rights. The fair value of mortgage servicing rights is estimated by discounting the expected future cash flows, taking into consideration the estimated level of prepayments based on current industry expectations and the predominant risk characteristics of the underlying loans. Impairment adjustments are recorded through a valuation allowance. The valuation allowance is adjusted for changes in impairment through a charge to current period earnings. Fluctuations in the fair value of mortgage servicing rights are primarily due to changes in assumptions regarding prepayments of the underlying mortgage loans, which typically correspond with changes in market interest rates. During 2011 we recorded impairment of \$1.3 million, as compared to the reversal of previously recorded impairment of \$787 thousand during 2010 and \$7.2 million in 2009.

Other expenses primarily include professional fees; advertising and public relations costs; office supply, postage, freight, telephone and travel expenses; donations expense; debit and credit card expenses; board of director fees; and other losses. Other expense increased \$1.5 million, or 3.3%, to \$47.4 million in 2011, from \$45.9 million in 2010, primarily due to higher legal expenses associated with foreclosure and collection efforts. Other expenses increased \$1.6 million, or 3.7%, to \$45.9 million in 2010, from \$44.3 million in 2009, primarily due to a \$1.5 million loss on the sale of mortgage servicing rights recorded during fourth quarter 2010.

Income Tax Expense

Our effective federal tax rate was 28.1% for the year ended December 31, 2011, 26.8% for the year ended December 31, 2010 and 29.1% for the year ended December 31, 2009. State income tax applies primarily to pretax earnings generated within Montana and South Dakota. Our effective state tax rate was 4.6% for the year ended December 31, 2011 and 2010 and 4.2% for the year ended December 31, 2009. Changes in effective federal and state income tax rates are primarily due to fluctuations in tax exempt interest income on loan and investment securities as a percentage of total income.

Net Income Available to Common Shareholders

Net income available to common shareholders was \$41.1 million, or \$0.96 per diluted share, in 2011, as compared to \$33.9 million, or \$0.85 per diluted share, in 2010 and \$50.4 million, or \$1.59 per diluted share, in 2009.

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Summary of Quarterly Results

The following table presents unaudited quarterly results of operations for the fiscal years ended December 31, 2011 and 2010.

Quarterly Results

(Dollars in thousands except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Year Ended December 31, 2011:					
Interest income	\$73,843	\$73,551	\$73,483	\$72,006	\$292,883
Interest expense	12,045	11,024	9,991	8,971	42,031
Net interest income	61,798	62,527	63,492	63,035	250,852
Provision for loan losses	15,000	15,400	14,000	13,751	58,151
Net interest income after provision for loan losses	46,798	47,127	49,492	49,284	192,701
Non-interest income	20,159	21,591	23,125	26,997	91,872
Non-interest expense	52,958	54,192	55,041	56,221	218,412
Income before income taxes	13,999	14,526	17,576	20,060	66,161
Income tax expense	4,493	4,672	5,655	6,795	21,615
Net income	9,506	9,854	11,921	13,265	44,546
Preferred stock dividends	844	853	862	863	3,422
Net income available to common shareholders	\$8,662	\$9,001	\$11,059	\$12,402	\$41,124
Basic earnings per common share	\$0.20	\$0.21	\$0.26	\$0.29	\$0.96
Diluted earnings per common share	0.20	0.21	0.26	0.29	0.96
Dividends paid per common share	0.1125	0.1125	0.1125	0.1125	0.4500
Year Ended December 31, 2010:					
Interest income	\$79,499	\$79,867	\$78,965	\$76,215	\$314,546
Interest expense	17,830	16,691	15,221	13,365	63,107
Net interest income	61,669	63,176	63,744	62,850	251,439
Provision for loan losses	11,900	19,500	18,000	17,500	66,900
Net interest income after provision for loan losses	49,769	43,676	45,744	45,350	184,539
Non-interest income	19,508	21,037	24,855	25,511	90,911
Non-interest expense	52,745	55,426	58,010	54,823	221,004
Income before income taxes	16,532	9,287	12,589	16,038	54,446
Income tax expense	5,402	2,628	3,860	5,200	17,090
Net income	11,130	6,659	8,729	10,838	37,356
Preferred stock dividends	844	853	862	863	3,422
Net income available to common shareholders	\$10,286	\$5,806	\$7,867	\$9,975	\$33,934
Basic earnings per common share	\$0.33	\$0.14	\$0.18	\$0.23	\$0.85
Diluted earnings per common share	0.32	0.14	0.18	0.23	0.85
Dividends paid per common share	0.1125	0.1125	0.1125	0.1125	0.4500

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Financial Condition

Total assets decreased \$175 million, or 2.3%, to \$7,326 million as of December 31, 2011, from \$7,501 million as of December 31, 2010, due to lower outstanding funding sources, including deposits and repurchase agreements. Total assets increased \$363 million, or 5.1%, to \$7,501 million as of December 31, 2010, from \$7,138 million as of December 31, 2009, due to organic growth and IPO proceeds of \$119 million, net of IPO costs and after the repayment of our variable rate term notes.

Loans

Our loan portfolio consists of a mix of real estate, consumer, commercial, agricultural and other loans, including fixed and variable rate loans. Fluctuations in the loan portfolio are directly related to the economies of the communities we serve. While each loan originated generally must meet minimum underwriting standards established in our credit policies, lending officers are granted certain levels of authority in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area. For additional information regarding our underwriting standards and loan approval policies, see "Community Banking—Lending Activities", included in Part I, Item I of this report.

Total loans decreased \$181 million, or 4.2%, to \$4,187 million as of December 31, 2011, from \$4,368 million as of December 31, 2010 and decreased \$160 million, or 3.5% to \$4,368 million as of December 31, 2010 from \$4,528 million as of December 31, 2009, primarily due to weak loan demand in our market areas, the result of economic uncertainty, and to the movement of lower quality loans out of the loan portfolio through charge-off, pay-off or foreclosure.

The following table presents the composition of our loan portfolio as of the dates indicated:

Loans Outstanding

(Dollars in thousands)

	As of December 31,									
	2011	Percent	2010	Percent	2009	Percent	2008	Percent	2007	Percent
Loans										
Real estate:										
Commercial	\$1,553,155	37.1 %	\$1,565,665	35.8 %	\$1,556,273	34.4 %	\$1,483,967	31.1 %	\$1,018,831	28.6 %
Construction	400,773	9.6	527,458	12.1	636,892	14.1	790,177	16.5	664,272	18.7
Residential	571,943	13.7	549,604	12.6	539,098	11.9	587,464	12.3	419,001	11.8
Agricultural	175,302	4.2	182,794	4.2	195,045	4.3	191,831	4.0	142,256	4.0
Consumer	616,071	14.7	646,580	14.8	677,548	14.9	669,731	14.0	608,002	17.1
Commercial	693,261	16.6	730,471	16.7	750,647	16.6	853,798	17.9	593,669	16.7
Agricultural	119,710	2.8	116,546	2.7	134,470	3.0	145,876	3.1	81,890	2.3
Other loans	2,813	—	2,383	0.1	1,601	—	2,893	0.1	4,979	0.1
Mortgage										
loans held	53,521	1.3	46,408	1.0	36,430	0.8	47,076	1.0	26,080	0.7
for sale										
Total loans	4,186,549	100.0 %	4,367,909	100.0 %	4,528,004	100.0 %	4,772,813	100.0 %	3,558,980	100.0 %
Less										
allowance	112,581		120,480		103,030		87,316		52,355	
for loan										
losses										
Net loans	\$4,073,968		\$4,247,429		\$4,424,974		\$4,685,497		\$3,506,625	

Ratio of allowance to total loans	2.69	%	2.76	%	2.28	%	1.83	%	1.47	%
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Real Estate Loans. We provide interim construction and permanent financing for both single-family and multi-unit properties, medium-term loans for commercial, agricultural and industrial property and/or buildings and equity lines of credit secured by real estate.

Commercial real estate loans. Commercial real estate loans include loans for property and improvements used commercially by the borrower or for lease to others for the production of goods or services. Approximately 57% and 55% of our commercial real estate loans as of December 31, 2011 and 2010, respectively, were owner occupied. Commercial real estate loans decreased less than 1.0% to \$1,553 million as of December 31, 2011, from \$1,566 million as of December 31, 2010. Commercial real estate loans increased less than 1.0% to \$1,566 million as of December 31, 2010, from \$1,556 million as of December 31, 2009.

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Construction loans. Construction loans are primarily to commercial builders for residential lot development and the construction of single-family residences and commercial real estate properties. Construction loans are generally underwritten pursuant to pre-approved permanent financing. During the construction phase the borrower pays interest only. As of December 31, 2011, our construction loan portfolio was divided among the following categories: approximately \$61 million, or 15.3%, residential construction; approximately \$61 million, or 15.2%, commercial construction; and, approximately \$279 million, or 69.5%, land acquisition and development. As of December 31, 2010, our construction loan portfolio was divided among the following categories: approximately \$99 million, or 18.8%, residential construction; approximately \$98 million, or 18.7%, commercial construction; and, approximately \$330 million, or 62.5%, land acquisition and development.

Construction loans decreased \$127 million, or 24.0%, to \$401 million as of December 31, 2011, from \$527 million as of December 31, 2010. Construction loans decreased \$109 million, or 17.2%, to \$527 million as of December 31, 2010, from \$637 million as of December 31, 2009. Management attributes these decreases to the continuing impact of general declines in new home construction in our market areas, particularly in markets dependent upon resort and second home communities, and, to a lesser extent, the movement of lower quality loans out of our loan portfolio through charge-off, pay-off or foreclosure.

Management expects construction loans to continue to decline in future quarters as existing non-performing construction loans continue to work through the credit cycle. Construction activity in our market areas remains soft, as reflected by decreases in housing permits and new housing starts. Housing permits in Montana, Wyoming and South Dakota showed a combined decrease of 3.2% during the eleven months ended November 30, 2011, as compared to the same period in 2010. Additionally, privately-owned, 1-unit housing starts in Montana, Wyoming and South Dakota showed a combined 7.3% decrease during the eleven months ended November 30, 2011, as compared to the same period in 2010.

Residential real estate loans. Residential real estate loans increased \$22 million, or 4.1%, to \$572 million as of December 31, 2011, from \$550 million as of December 31, 2010, and increased \$11 million, or 1.9%, to \$550 million as of December 31, 2010, from \$539 million as of December 31, 2009. Record low mortgage interest rates resulted in increased residential real estate loan production during 2011. In addition, we typically sell a significant portion of our residential real estate loan production in the secondary market; however, during 2010 we began to retain more of our residential real estate loans. Retained residential real estate loans are typically secured by first liens on the financed property and generally mature in less than fifteen years.

Consumer Loans. Our consumer loans include direct personal loans, credit card loans and lines of credit; and indirect loans created when we purchase consumer loan contracts advanced for the purchase of automobiles, boats and other consumer goods from the consumer product dealer network within the market areas we serve. Personal loans and indirect dealer loans are generally secured by automobiles, recreational vehicles, boats and other types of personal property and are made on an installment basis. Credit cards are offered to customers in our market areas. Lines of credit are generally floating rate loans that are unsecured or secured by personal property. Approximately 66.2% and 65.5% of our consumer loans as of December 31, 2011 and 2010, respectively, were indirect dealer loans.

Consumer loans decreased \$30 million, or 4.7%, to \$616 million as of December 31, 2011, from \$647 million as of December 31, 2010. Approximately 52% of this decrease occurred in indirect dealer loans and was the result of competitive rate pressure. Management attributes the remaining decrease to changes in consumer behavior resulting from continuing economic uncertainty. Consumer loans decreased \$31 million, or 4.6%, to \$647 million as of December 31, 2010, from \$678 million as of December 31, 2009, primarily due to the third quarter 2010 sale of student loans of \$25 million.

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

Commercial loans decreased \$37 million, or 5.1%, to \$693 million as of December 31, 2011, from \$730 million as of December 31, 2010, and decreased \$20 million, or 2.7%, to \$730 million as of December 31, 2010, from \$751 million as of December 31, 2009. Management attributes these decreases to the continuing effects of economic uncertainty on borrowers in our market areas and the movement of lower quality loans out of our loan portfolio through charge-off, pay-off or foreclosure.

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Agricultural Loans. Our agricultural loans generally consist of short and medium-term loans and lines of credit that are primarily used for crops, livestock, equipment and general operations. Agricultural loans are ordinarily secured by assets such as livestock or equipment and are repaid from the operations of the farm or ranch. Agricultural loans generally have maturities of five years or less, with operating lines for one production season. Agricultural loans increased \$3 million, or 2.7%, to \$120 million as of December 31, 2011, from \$117 million as of December 31, 2010 and decreased \$17 million, or 13.3%, to \$117 million as of December 31, 2010, from \$134 million as of December 31, 2009.

The following table presents the maturity distribution of our loan portfolio and the sensitivity of the loans to changes in interest rates as of December 31, 2011:

Maturities and Interest Rate Sensitivities

(Dollars in thousands)

	Within One Year	One Year to Five Years	After Five Years	Total
Real estate	\$1,032,121	\$1,061,514	\$607,538	\$2,701,173
Consumer	282,304	314,810	18,957	616,071
Commercial	416,647	213,325	63,289	693,261
Agricultural	97,431	20,955	1,324	119,710
Other	—	—	2,813	2,813
Mortgage loans held for sale	53,521			53,521
Total loans	\$1,882,024	\$1,610,604	\$693,921	\$4,186,549
Loans at fixed interest rates	\$1,127,598	\$1,083,676	\$102,828	\$2,314,102
Loans at variable interest rates	754,426	526,928	391,110	1,672,464
Non-accrual loans	—	—	199,983	199,983
Total loans	\$1,882,024	\$1,610,604	\$693,921	\$4,186,549

Non-Performing Assets

Non-performing assets include non-performing loans and OREO. The following table sets forth information regarding non-performing assets as of the dates indicated:

Non-Performing Assets

(Dollars in thousands)

As of December 31,	2011	2010	2009	2008	2007	
Non-performing loans:						
Nonaccrual loans	\$199,983	\$195,342	\$115,030	\$85,632	\$31,552	
Accruing loans past due 90 days or more	4,111	1,852	4,965	3,828	2,171	
Troubled debt restructurings	37,376	13,490	4,683	1,462	1,027	
Total non-performing loans	241,470	210,684	124,678	90,922	34,750	
OREO	37,452	33,632	38,400	6,025	928	
Total non-performing assets	\$278,922	\$244,316	\$163,078	\$96,947	\$35,678	
Non-performing loans to total loans	5.77	%4.82	%2.75	%1.90	%0.98	%
Non-performing assets to total loans and OREO	6.60	5.55	3.57	2.03	1.00	
Non-performing assets to total assets	3.81	3.26	2.28	1.46	0.68	

Total non-performing assets peaked at \$292 million during second quarter 2011, and ended the year at \$279 million, an increase of \$35 million, or 14.2%, from \$244 million as of December 31, 2010. Non-performing assets increased \$81 million, or 49.8%, to \$244 million as of December 31, 2010, from \$163 million as of December 31, 2009.

Difficult economic conditions negatively impacted businesses and consumers in our market areas, especially in the

Flathead, Gallatin Valley and Jackson market areas, which have economies dependent upon resort and second home communities. Residential and second home subdivisions in these market areas were overbuilt and these markets are now experiencing severely depressed real estate values and limited sales activity, which has negatively impacted commercial real estate values as well. The Flathead, Gallatin Valley and Jackson market areas accounted for approximately 43% of our non-performing assets as of December 31, 2011 and 18% of our total loans as of the same date.

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

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

Non-Performing Loans by Loan Type

(Dollars in thousands)

As of December 31,	2011	2010	2009	2008	2007
Real estate	\$216,289	\$169,961	\$101,751	\$79,167	\$27,513
Consumer	3,455	2,720	2,265	2,944	1,202
Commercial	20,857	36,906	19,774	8,594	5,722
Agricultural	869	1,093	888	217	313
Other	—	4	—	—	—
Total non-performing loans	\$241,470	\$210,684	\$124,678	\$90,922	\$34,750

As of December 31, 2011, our non-performing real estate loans were divided among the following categories: \$63 million, or 29.2%, land and land development; \$87 million, or 40.2%, commercial; \$14 million, or 6.5% residential construction; \$20 million, or 9.3%, residential; \$25 million, or 11.3% commercial construction; and, \$7 million, or 3.5%, agricultural.

As of December 31, 2010, our non-performing real estate loans were divided among the following categories: \$45 million, or 29.1%, land and land development; \$73 million, or 43.2%, commercial; \$17 million, or 9.8% residential construction; \$16 million, or 9.5%, residential; \$17 million, or 9.8% commercial construction; and, \$2 million, or 1.5%, agricultural.

Total non-performing loans increased \$31 million, or 14.6%, to \$241 million as of December 31, 2011, from \$211 million as of December 31, 2010, and \$86 million, or 69.0%, to \$211 million as of December 31, 2010, from \$125 million as of December 31, 2009. Significant components of these increases are discussed below.

Non-accrual loans. We generally place loans on non-accrual when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on non-accrual status, any interest previously accrued but not collected is reversed from income. Approximately \$12.4 million, \$8.9 million and \$6.4 million of gross interest income would have been accrued if all loans on non-accrual had been current in accordance with their original terms for the years ended December 31, 2011, 2010 and 2009, respectively.

Non-accrual loans increased \$5 million, or 2.4%, to \$200 million at December 31, 2011, from \$195 million at December 31, 2010. As of December 31, 2011, approximately 39% of our non-accrual loans were to borrowers in the Flathead, Gallatin Valley and Jackson market areas and were comprised primarily of commercial real estate and construction loans.

Non-accrual loans increased \$80 million, or 69.8%, to \$195 million at December 31, 2010, from \$115 million at December 31, 2009. Approximately 82% of the increase in non-accrual loans were loans to borrowers in the Flathead, Gallatin Valley and Jackson market areas and were comprised primarily of commercial real estate and construction loans.

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

Troubled debt restructuring loans increased to \$37 million as of December 31, 2011, from \$13 million as of December 31, 2010. Approximately 45% of our restructured loans as of December 31, 2011, were located in the Flathead, Gallatin Valley and Jackson market areas. As of December 31, 2011, approximately 72% of our restructured loans were performing in accordance with their modified terms. Troubled debt restructurings in the preceding non-performing assets table includes \$389 thousand of accruing loans past due 90 days or more as of December 31, 2011. All other non-performing restructured loans are included in non-accrual loans in the preceding non-performing assets and non-performing loan tables.

Troubled debt restructuring loans increased to \$13 million as of December 31, 2010, from \$5 million as of December 31, 2009, primarily due to the loans of one commercial and five commercial real estate borrowers. Approximately 34% of our restructured loans as of December 31, 2010 were located in the Flathead, Gallatin Valley and Jackson market areas.

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

OREO increased \$4 million, or 11.4%, to \$37 million as of December 31, 2011 from \$34 million as of December 31, 2010. During 2011, the Company recorded additions to OREO of \$27 million, wrote down the fair value of OREO properties by \$7 million and sold OREO with a book value of \$16 million. As of December 31, 2011, approximately 67% of our OREO properties were located in the Flathead, Gallatin Valley and Jackson market areas.

OREO decreased \$5 million, or 12.4%, to \$34 million as of December 31, 2010 from \$38 million as of December 31, 2009. During 2010, the Company recorded additions to OREO of \$22 million, wrote down the fair value of OREO properties by \$7 million and sold OREO with a book value of \$20 million.

Allowance for Loan Losses

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

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

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The allowance for loan losses consists of three elements:

Specific valuation allowances associated with impaired loans. Specific valuation allowances are determined based on assessment of the fair value of the collateral underlying the loans as determined through independent appraisals, (1) the present value of future cash flows, observable market prices and any relevant qualitative or environmental factors impacting the loan. No specific valuation allowances are recorded for impaired loans that are adequately secured.

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

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

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

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

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

Based on declines in national, regional and local economies which began in 2008, we began to record additional general valuation allowances based on management's estimation of the probable impact that the declines would have on our loan portfolio. Accordingly, beginning in 2008, and continuing in 2009 and 2010, we recorded significantly higher provisions for loan losses to maintain the allowance for loan losses at appropriate levels. During 2008, 2009 and 2010, we experienced higher levels of impaired and non-performing loans as anticipated. Impaired and non-performing loans peaked in mid-2011 and our provision for loan losses decreased slightly during the last half of 2011. Management expects that non-performing and impaired loans will continue to decline as they make their way

through the credit cycle and we have a decrease in the volume of newly identified non-performing and impaired loans as the economy improves.

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

Allowance for Loan Losses

(Dollars in thousands)

As of and for the year ended December 31,	2011	2010	2009	2008	2007	
Balance at the beginning of period	\$ 120,480	\$ 103,030	\$ 87,316	\$ 52,355	\$ 47,452	
Allowance of acquired banking offices	—	—	—	14,463	—	
Charge-offs:						
Real estate						
Commercial	13,227	8,980	5,156	995	382	
Construction	26,125	19,989	14,153	3,035	—	
Residential	6,199	3,511	1,086	325	134	
Agricultural	213	2,238	11	642	155	
Consumer	6,043	7,577	8,134	5,527	3,778	
Commercial	19,332	10,023	3,346	3,523	643	
Agricultural	142	21	92	648	116	
Total charge-offs	71,281	52,339	31,978	14,695	5,208	
Recoveries:						
Real estate						
Commercial	293	34	108	88	52	
Construction	1,641	213	7	1	1	
Residential	201	132	38	67	34	
Consumer	1,739	2,053	1,850	1,404	1,390	
Commercial	1,344	436	328	211	854	
Agricultural	13	21	61	66	30	
Total recoveries	5,231	2,889	2,392	1,837	2,361	
Net charge-offs	66,050	49,450	29,586	12,858	2,847	
Provision for loan losses	58,151	66,900	45,300	33,356	7,750	
Balance at end of period	\$ 112,581	\$ 120,480	\$ 103,030	\$ 87,316	\$ 52,355	
Period end loans	\$ 4,186,549	\$ 4,367,909	\$ 4,528,004	\$ 4,772,813	\$ 3,558,980	
Average loans	4,275,128	4,482,219	4,660,189	4,527,987	3,449,809	
Net charge-offs to average loans	1.54	% 1.10	% 0.63	% 0.28	% 0.08	%
Allowance to period-end loans	2.69	% 2.76	% 2.28	% 1.83	% 1.47	%

The allowance for loan losses was \$113 million, or 2.69% of period-end loans, at December 31, 2011, compared to \$120 million, or 2.76% of period-end loans, at December 31, 2010, and \$103 million, or 2.28% of period-end loans, at December 31, 2009. Decreases in the allowance for loan losses as a percentage of total loans as of December 31, 2011, as compared to December 31, 2010, were primarily due to decreases in specific reserves on impaired loans. Increases in the allowance for loan losses as a percentage of total loans as of December 31, 2010, as compared to prior periods, were primarily attributable to additional reserves recorded based on the estimated effects of current economic conditions on our loan portfolio and increases in past due, non-performing and internally risk classified loans.

Net charge-offs in 2011 increased \$17 million to \$66 million, or 1.54% of average loans, from \$49 million, or 1.10% of average loans in 2010. Approximately 46% of loans charged-off during 2011 were related to the loans of one consumer real estate, two land development and three commercial borrowers.

Net charge-offs in 2010 increased \$20 million to \$49 million, or 1.10% of average loans, from \$30 million, or 0.63% of average loans in 2009. Approximately 66.8% of loans charged-off during 2010 were located in the Flathead, Gallatin Valley and Jackson markets areas. Additionally, approximately 37.5% of loans charged-off during 2010 were related to nine borrowers, consisting of one commercial, one agricultural, four construction and three commercial real estate borrowers.

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Although we believe that we have established our allowance for loan losses in accordance with accounting principles generally accepted in the United States and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times during the five-year period ended December 31, 2011, future provisions will be subject to on-going evaluations of the risks in the loan portfolio. If the economy declines or asset quality deteriorates, material additional provisions could be required.

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

Allocation of the Allowance for Loan Losses

(Dollars in thousands)

As of December 31,	2011		2010		2009		2008		2007	
	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans	Allocated Reserves	% of Loan Category to Total Loans
Real estate	\$87,396	64.6 %	\$84,181	64.7 %	\$76,357	64.7 %	\$69,280	63.9 %	\$39,420	63.1 %
Consumer	8,594	14.7	9,332	14.8	6,220	14.9	5,092	14.0	4,838	17.1
Commercial	15,325	16.6	25,354	16.7	18,608	16.6	11,021	17.9	7,170	16.7
Agricultural	1,266	2.8	1,613	2.7	1,845	3.0	1,923	3.1	779	2.3
Other loans	—	—	—	0.1	—	—	—	0.1	—	0.1
Mortgage loans held for sale	—	1.3	—	1.0	—	0.8	—	1.0	—	0.7
Unallocated	—	N/A	—	N/A	—	N/A	—	N/A	148	N/A
Totals	\$112,581	100.0 %	\$120,480	100.0 %	\$103,030	100.0 %	\$87,316	100.0 %	\$52,355	100.0 %

The allowance for loan losses allocated to commercial loans decreased 39.6% to \$15 million as of December 31, 2011, from \$25 million as of December 31, 2010, primarily due to the charge-off of non-performing loans. The allowance for loan losses allocated to commercial loans increased 36.3% to \$25 million as of December 31, 2010, from \$19 million as of December 31, 2009, primarily due to the application of historical loss factors to higher levels of internally risk classified commercial loans and the effect of increases in net charge-offs on our historical loss factors.

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. As of December 31, 2011, our portfolio was principally comprised of U.S. government agency mortgage-backed securities and collateralized mortgage obligations, U.S. government agency securities and tax exempt securities. Federal funds sold and interest bearing deposits in bank are additional investments that are classified as cash equivalents rather than as investment securities. Investment securities classified

as available-for-sale are recorded at fair value, while investment securities classified as held-to-maturity are recorded at amortized cost. Unrealized gains or losses, net of the deferred tax effect, on available-for-sale securities are reported as increases or decreases in accumulated other comprehensive income or loss, a component of stockholders' equity.

Investment securities increased \$236 million, or 12.2%, to \$2,170 million as of December 31, 2011, from \$1,933 million as of December 31, 2010 and increased \$487 million, or 33.7%, to \$1,933 million as of December 31, 2010, from \$1,446 million as of December 31, 2009. During 2011 and 2010, excess liquidity was primarily invested into available-for-sale U.S. government agency securities. The estimated duration of the Company's investment securities portfolio was 2.1 years as of December 31, 2011 and 2.5 years as of December 31, 2010. The weighted average yield on investment securities decreased 57 basis points to 2.41% in 2011, from 2.98% in 2010, and 139 basis points to 2.98% in 2010, from 4.37% in 2009.

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As of December 31, 2011, investment securities with amortized costs and fair values of \$1,280 million and \$1,311 million, respectively, were pledged to secure public deposits and securities sold under repurchase agreements, as compared to \$1,607 million and \$1,625 million, respectively, as of December 31, 2010. For additional information concerning securities sold under repurchase agreements, see “—Federal Funds Purchased and Securities Sold Under Repurchase Agreements” included herein.

The following table sets forth the book value, percentage of total investment securities and weighted average yields on investment securities as of December 31, 2011. Weighted-average yields have been computed on a fully taxable-equivalent basis using a tax rate of 35%.

Securities Maturities and Yield

(Dollars in thousands)

	Book Value	% of Total Investment Securities	Weighted Average FTE Yield
U.S. Government agency securities			