FIRST INTERSTATE BANCSYSTEM INC
Form 10-Q
August 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2011

OR

o **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

COMMISSION FILE NUMBER 001-34653
First Interstate BancSystem, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: 406/255-5390

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

Yes þ No o

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

Yes þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting Company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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

June 30, 2011	Class A common stock	16,213,617
June 30, 2011	Class B common stock	26,751,304

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Quarterly Report on Form 10-Q

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	June 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 130,413	$ 107,035
Federal funds sold	1,764	2,114
Interest bearing deposits in banks	283,314	576,469
Total cash and cash equivalents	415,491	685,618
Investment securities:		
Available-for-sale	1,873,864	1,786,335
Held-to-maturity (estimated fair values of $153,448 as of June 30, 2011 and $146,508 as of December 31, 2010)	148,865	147,068
Total investment securities	2,022,729	1,933,403
Loans	4,281,260	4,367,909
Less allowance for loan losses	124,579	120,480
Net loans	4,156,681	4,247,429
Premises and equipment, net of accumulated depreciation	186,529	188,138
Goodwill	183,673	183,673
Company-owned life insurance	74,080	73,056
Accrued interest receivable	33,588	33,628
Other real estate owned (OREO), net of write-downs	28,323	33,632
Mortgage servicing rights, net of accumulated amortization and impairment reserve	13,218	13,191
Deferred tax asset	10,466	18,472
Core deposit intangibles, net of accumulated amortization	8,080	8,803
Other assets	69,933	81,927
Total assets	$ 7,202,791	$ 7,500,970
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	$ 1,109,905	$ 1,063,869
Interest bearing	4,684,760	4,861,844
Total deposits	5,794,665	5,925,713
Securities sold under repurchase agreements	435,039	620,154

Accounts payable and accrued expenses	35,395	38,915
Accrued interest payable	11,712	13,178
Long-term debt	37,480	37,502
Other borrowed funds	5,440	4,991
Subordinated debentures held by subsidiary trusts	123,715	123,715
Total liabilities	6,443,446	6,764,168
Stockholders equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; issued and outstanding 5,000 shares as of June 30, 2011 and December 31, 2010	50,000	50,000
Common stock	265,639	264,174
Retained earnings	421,309	413,253
Accumulated other comprehensive income, net	22,397	9,375
Total stockholders equity	759,345	736,802
Total liabilities and stockholders equity	$ 7,202,791	$ 7,500,970

See accompanying notes to unaudited consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Interest income:				
Interest and fees on loans	$ 61,475	$ 67,501	$ 123,866	$ 134,395
Interest and dividends on investment securities:				
Taxable	10,649	10,931	20,560	22,133
Exempt from federal taxes	1,194	1,173	2,365	2,339
Interest on deposits in banks	227	257	594	481
Interest on federal funds sold	6	5	9	18
Total interest income	73,551	79,867	147,394	159,366
Interest expense:				
Interest on deposits	8,903	14,496	18,774	29,774
Interest on securities sold under repurchase agreements	171	229	408	423
Interest on other borrowed funds		1		2
Interest on long-term debt	495	509	984	1,428
Interest on subordinated debentures held by subsidiary trusts	1,455	1,456	2,903	2,894
Total interest expense	11,024	16,691	23,069	34,521
Net interest income	62,527	63,176	124,325	124,845
Provision for loan losses	15,400	19,500	30,400	31,400
Net interest income after provision for loan losses	47,127	43,676	93,925	93,445
Non-interest income:				
Other service charges, commissions and fees	7,768	7,380	15,148	14,252
Service charges on deposit accounts	4,385	4,759	8,495	9,357
Income from origination and sale of loans	4,109	4,186	7,554	7,486
Wealth managment revenues	3,483	3,199	6,778	6,213
Investment securities gains, net	16	15	18	42
Other income	1,830	1,498	3,757	3,195
Total non-interest income	21,591	21,037	41,750	40,545
Non-interest expense:				
Salaries, wages and employee benefits	27,889	27,379	55,591	55,457
Occupancy, net	4,013	3,963	8,228	8,105
Furniture and equipment	3,129	3,356	6,349	6,697
Outsourced technology services	2,212	2,449	4,453	4,698
FDIC insurance premiums	1,629	2,667	4,095	5,123

OREO expense, net of income	2,042	2,980	3,753	3,521
Mortgage servicing rights amortization	671	1,115	1,478	2,248
Mortgage servicing rights impairment (recovery)	27	271	(320)	221
Core deposit intangibles amortization	361	440	723	879
Other expenses	12,219	10,806	22,800	21,222
Total non-interest expense	54,192	55,426	107,150	108,171
Income before income tax expense	14,526	9,287	28,525	25,819
Income tax expense	4,672	2,628	9,165	8,030
Net income	9,854	6,659	19,360	17,789
Preferred stock dividends	853	853	1,697	1,697
Net income available to common stockholders	$ 9,001	$ 5,806	$ 17,663	$ 16,092
Basic earnings per common share	$ 0.21	$ 0.14	$ 0.41	$ 0.43
Diluted earnings per common share	$ 0.21	$ 0.14	$ 0.41	$ 0.43

See accompanying notes to unaudited consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders Equity
(In thousands, except share and per share data)
(Unaudited)

	Preferred stock	Common stock	Retained earnings	Accumulated other comprehensive income	Total stockholders equity
Balance at December 31, 2010	$ 50,000	$ 264,174	$ 413,253	$ 9,375	$ 736,802
Comprehensive income:					
Net income			19,360		19,360
Other comprehensive income, net of tax				13,022	13,022
Total comprehensive income					32,382
Common stock transactions:					
14,112 common shares purchased and retired		(193)			(193)
14,692 common shares issued		195			195
130,904 non-vested common shares issued					
17,544 non-vested common shares forfeited		(89)			(89)
Non-vested liability awards vesting during period		195			195
50,287 stock options exercised, net of 106,185 shares tendered in payment of option price and income tax withholding amounts		102			102
Tax benefit of stock-based compensation		224			224
Stock-based compensation expense		1,031			1,031
Cash dividends declared:					
Common ($0.225 per share)			(9,607)		(9,607)
Preferred (6.75% per share)			(1,697)		(1,697)
Balance at June 30, 2011	$ 50,000	$ 265,639	$ 421,309	$ 22,397	$ 759,345
Balance at December 31, 2009	$ 50,000	$ 112,135	$ 397,224	$ 15,075	$ 574,434
Comprehensive income:					
Net income			17,789		17,789
Other comprehensive income, net of tax				6,811	6,811
Total comprehensive income					24,600

Common stock transactions:					
246,596 common shares purchased and retired		(3,699)			(3,699)
11,506,503 common shares issued		153,120			153,120
117,140 non-vested common shares issued					
3,548 non-vested common shares forfeited		(14)			(14)
80,262 stock options exercised, net of 67,110 shares tendered in payment of option price and income tax withholding amounts		589			589
Tax benefit of stock-based compensation		228			228
Stock-based compensation expense		958			958
Cash dividends declared:					
Common ($0.225 per share)			(8,331)		(8,331)
Preferred (6.75% per share)			(1,697)		(1,697)
Balance at June 30, 2010	$ 50,000	$ 263,317	$ 404,985	$ 21,886	$ 740,188

See accompanying notes to unaudited consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	For the six months ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 19,360	$ 17,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	30,400	31,400
Net loss on disposal of property and equipment	3	306
Depreciation and amortization	8,677	9,986
Net premium amortization on investment securities	4,932	2,259
Net gains on investment securities transactions	(18)	(42)
Net gains on sales of loans held for sale	(4,984)	(4,553)
Write-down of OREO and equipment pending disposal	3,515	3,133
Net (recovery) impairment on mortgage servicing rights	(320)	221
Loss on early extinguishment of debt		306
Deferred income tax benefit	(538)	(1,223)
Net increase in cash surrender value of company-owned life insurance policies	(1,024)	(1,021)
Stock-based compensation expense	1,116	988
Tax benefits from stock-based compensation expense	224	228
Excess tax benefits from stock-based compensation	(157)	(220)
Changes in operating assets and liabilities:		
Decrease (increase) in loans held for sale	21,709	(8,874)
Decrease (increase) in interest receivable	40	(1,306)
Decrease in other assets	11,461	3,927
(Decrease) increase in accrued interest payable	(1,466)	2,857
Decrease in accounts payable and accrued expenses	(3,275)	(8,439)
Net cash provided by operating activities	89,655	47,722
Cash flows from investing activities:		
Purchases of investment securities:		
Held-to-maturity	(7,434)	(12,243)
Available-for-sale	(406,564)	(529,379)
Proceeds from maturities and paydowns of investment securities:		
Held-to-maturity	5,405	6,871
Available-for-sale	335,877	354,652
Proceeds from sales of mortgage servicing rights, net of acquisitions		597
Extensions of credit to customers, net of repayments	34,535	(57,943)
Recoveries of loans charged-off	2,140	1,403
Proceeds from sales of OREO	7,963	7,749
Capital expenditures, net of sales	(4,730)	(4,843)
Net cash used in investing activities	(32,808)	(233,136)

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
(In thousands)
(Unaudited)

	For the six months ended June 30,	
	2011	2010
Cash flows from financing activities:		
Net decrease in deposits	$ (131,048)	$ (21,734)
Net decrease in repurchase agreements	(185,115)	(20,392)
Net increase in short-term borrowings	449	1,773
Repayments of long-term debt	(22)	(35,330)
Common stock issuance costs		(13,733)
Proceeds from issuance of common stock	102	167,339
Excess tax benefits from stock-based compensation	157	220
Purchase and retirement of common stock	(193)	(3,699)
Dividends paid to common stockholders	(9,607)	(8,331)
Dividends paid to preferred stockholders	(1,697)	(1,697)
Net cash (used in) provided by financing activities	(326,974)	64,416
Net decrease in cash and cash equivalents	(270,127)	(120,998)
Cash and cash equivalents at beginning of period	685,618	623,482
Cash and cash equivalents at end of period	$ 415,491	$ 502,484
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ 8,730	$ 11,630
Cash paid during the period for interest expense	$ 24,535	$ 31,664

See accompanying notes to unaudited consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
(In thousands, except share and per share data)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements of First Interstate BancSystem, Inc. and subsidiaries (the Company) contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the financial position of the Company at June 30, 2011 and December 31, 2010, the results of operations for each of the three and six month periods ended June 30, 2011 and 2010, and cash flows for the six months ended June 30, 2011 and 2010, in conformity with U.S. generally accepted accounting principles. The balance sheet information at December 31, 2010 is derived from audited consolidated financial statements. Certain reclassifications, none of which were material, have been made to conform prior year financial statements to the June 30, 2011 presentation. These reclassifications did not change previously reported net income or stockholders equity.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

(2) Investment Securities

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

Available-for-Sale June 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government agencies	$ 1,005,986	$ 6,667	$ (25)	$ 1,012,628
U.S. agency residential mortgage-backed securities	828,427	32,176	(230)	860,373
Private residential mortgage-backed securities	872	10	(19)	863
Total	$ 1,835,285	$ 38,853	$ (274)	$ 1,873,864

Held-to-Maturity June 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State, county and municipal securities	$ 148,674	$ 4,780	$ (197)	$ 153,257
Other securities	191			191
Total	$ 148,865	$ 4,780	$ (197)	$ 153,448

Available-for-Sale December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government agencies	$ 956,017	$ 3,337	$ (5,934)	$ 953,420
U.S. agency residential mortgage-backed securities	812,372	24,107	(4,619)	831,860

Private residential mortgage-backed securities	1,057	10	(12)	1,055
Total	$ 1,769,446	$ 27,454	$ (10,565)	$ 1,786,335

Held-to-Maturity December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State, county and municipal securities	$ 146,850	$ 1,375	$ (1,935)	$ 146,290
Other securities	218			218
Total	$ 147,068	$ 1,375	$ (1,935)	$ 146,508

Gross gains of $16 and $15 were realized on the disposition of available-for-sale investment securities during the three months ended June 30, 2011 and 2010, respectively. Gross gains of $18 and $42 were realized on the disposition of available-for-sale investment securities during the six months ended June 30, 2011 and 2010, respectively. No gross losses were realized on the disposition of available-for-sale investment securities during the three and six months ended June 30, 2011 or 2010.

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
(In thousands, except share and per share data)

The following table shows the gross unrealized losses and fair values of investment securities, aggregated by investment category, and the length of time individual investment securities have been in a continuous unrealized loss position, as of June 30, 2011 and December 31, 2010.

	Less than 12 Months		12 Months or More		Total	
June 30, 2011	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale						
Obligations of U.S. government agencies	$ 53,363	$ (25)	$	$	$ 53,363	$ (25)
U.S. agency residential mortgage-backed securities	48,403	(230)			48,403	(230)
Private residential mortgage-backed securities	539	(8)	205	(11)	744	(19)
Total	$ 102,305	$ (263)	$ 205	$ (11)	$ 102,510	$ (274)

	Less than 12 Months		12 Months or More		Total	
June 30, 2011	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity						
State, county and municipal securities	$ 6,503	$ (117)	$ 3,014	$ (80)	$ 9,517	$ (197)

	Less than 12 Months		12 Months or More		Total	
December 31, 2010	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale						
Obligations of U.S. government agencies	$ 498,344	$ (5,934)	$	$	$ 498,344	$ (5,934)
U.S. agency residential mortgage-backed securities	160,161	(4,619)			160,161	(4,619)
Private residential mortgage-backed securities			249	(12)	249	(12)
Total	$ 658,505	$ (10,553)	$ 249	$ (12)	$ 658,754	$ (10,565)

	Less than 12 Months	12 Months or More	Total

December 31, 2010	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity						
State, county and municipal securities	$ 42,178	$ (1,814)	$ 3,023	$ (121)	$ 45,201	$ (1,935)

The investment portfolio is evaluated quarterly for other-than-temporary declines in the market value of each individual investment security. The Company had 27 and 128 individual investment securities that were in an unrealized loss position as of June 30, 2011 and December 31, 2010, respectively. Unrealized losses as of June 30, 2011 and December 31, 2010 related primarily to fluctuations in the current interest rates. The Company does not have the intent to sell any of the available-for-sale securities in the above table and it is more likely than not that the Company will not be required to sell any such securities before a recovery of cost. No impairment losses were recorded during the three or six months ended June 30, 2011 or 2010.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
(In thousands, except share and per share data)

Maturities of investment securities at June 30, 2011 are shown below. Maturities of mortgage-backed securities have been adjusted to reflect shorter maturities based upon estimated prepayments of principal. All other investment securities maturities are shown at contractual maturity dates.

	Available-for-Sale		Held-to-Maturity	
June 30, 2011	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$ 309,476	$ 316,854	$ 6,245	$ 5,963
After one year but within five years	1,206,374	1,225,273	23,235	23,769
After five years but within ten years	177,136	183,958	58,708	61,237
After ten years	142,299	147,779	60,486	62,288
Total	1,835,285	1,873,864	148,674	153,257
Investments with no stated maturity			191	191
Total	$ 1,835,285	$ 1,873,864	$ 148,865	$ 153,448

(3) Loans

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

	June 30, 2011	December 31, 2010
Real estate loans:		
Commercial	$ 1,555,964	$ 1,565,665
Construction:		
Land acquisition & development	312,690	329,720
Residential	63,364	99,196
Commercial	76,740	98,542
Total construction loans	452,794	527,458
Residential	578,739	549,604
Agricultural	177,728	182,794
Mortgage loans originated for sale	28,498	46,408
Total real estate loans	2,793,723	2,871,929
Consumer loans:		
Indirect consumer loans	413,825	423,552
Other consumer loans	152,704	162,137
Credit card loans	59,655	60,891
Total consumer loans	626,184	646,580
Commercial	724,158	730,471

Agricultural	133,898	116,546
Other loans, including overdrafts	3,297	2,383
Total loans	$ 4,281,260	$ 4,367,909

Commercial real estate includes loans aggregating $866,352 and $867,510 as of June 30, 2011 and December 31, 2010, respectively, that are owner occupied.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
(In thousands, except share and per share data)

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

As of June 30, 2011	Accruing Loans 30 - 89 Days Past Due	Accruing Loans Past Due > 90 Days	Nonaccruing Loans 30 - 89 Days Past Due	Nonaccruing Loans Past Due > 90 Days	Total Loans 30 or More Days Past Due	Current Loans	Total Loans
Real estate							
Commercial	$ 35,604	$ 1,733	$ 8,647	$ 24,920	$ 70,904	$ 1,485,060	$ 1,555,964
Construction:							
Land acquisition & development	7,684	169	1,166	18,346	27,365	285,325	312,690
Residential	1,491			3,059	4,550	58,814	63,364
Commercial			79	6,072	6,151	70,589	76,740
Total construction loans	9,175	169	1,245	27,477	38,066	414,728	452,794
Residential	3,291	49		614	3,954	574,785	578,739
Agricultural	3,578	104		1,044	4,726	173,002	177,728
Mortgage loans originated for sale						28,498	28,498
Total real estate loans	51,648	2,055	9,892	54,055	117,650	2,676,073	2,793,723
Consumer:							
Indirect consumer loans	2,958	24	42	170	3,194	410,631	413,825
Other consumer loans	1,451	64	118	55	1,688	151,016	152,704
Credit card loans	764	538			1,302	58,353	59,655
Total consumer loans	5,173	626	160	225	6,184	620,000	626,184
Commercial	11,265	444	3,695	8,288	23,692	700,466	724,158
Agricultural	2,059	80	62	21	2,222	131,676	133,898
Other loans, including overdrafts						3,297	3,297
Total	$ 70,145	$ 3,205	$ 13,809	$ 62,589	$ 149,748	$ 4,131,512	$ 4,281,260

Total

As of December 31, 2010	Accruing Loans 30 - 89 Days Past Due	Accruing Loans Past Due > 90 Days	Nonaccruing Loans 30 - 89 Days Past Due	Nonaccruing Loans Past Due > 90 Days	Loans 30 or More Days Past Due	Current Loans	Total Loans
Real estate							
Commercial	$ 17,959	$	$ 7,582	$ 13,047	$ 38,588	$ 1,527,077	$ 1,565,665
Construction:							
Land acquisition & development	9,608		1,559	7,462	18,629	311,091	329,720
Residential	3,022		359	992	4,373	94,823	99,196
Commercial	2,794		1,213	3,376	7,383	91,159	98,542
Total construction loans	15,424		3,131	11,830	30,385	497,073	527,458
Residential	2,192		160	359	2,711	546,893	549,604
Agricultural	4,856		406	392	5,654	177,140	182,794
Mortgage loans originated for sale						46,408	46,408
Total real estate loans	40,431		11,279	25,628	77,338	2,794,591	2,871,929
Consumer:							
Indirect consumer loans	3,717		81	63	3,861	419,691	423,552
Other consumer loans	1,552	15	87	568	2,222	159,915	162,137
Credit card loans	1,005	759			1,764	59,127	60,891
Total consumer loans	6,274	774	168	631	7,847	638,733	646,580
Commercial	8,069	957	744	8,707	18,477	711,994	730,471
Agricultural	2,114	117		25	2,256	114,290	116,546
Other loans, including overdrafts	123	4			127	2,256	2,383
Total	$ 57,011	$ 1,852	$ 12,191	$ 34,991	$ 106,045	$ 4,261,864	$ 4,367,909

Included in current loans in the table above are loans aggregating $153,264 and $148,160 that were on nonaccrual status as of June 30, 2011 and December 31, 2010, respectively.

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The following table presents the Company s recorded investment in nonaccrual loans by class as of the dates indicated:

	June 30, 2011	December 31, 2010
Real estate		
Commercial	$ 75,505	$ 68,948
Construction:		
Land acquisition & development	65,420	41,547
Residential	15,167	16,679
Commercial	23,650	16,589
Total construction loans	104,237	74,815
Residential	12,274	15,222
Agricultural	4,583	2,497
Total real estate loans	196,599	161,482
Consumer:		
Indirect consumer loans	617	564
Other consumer loans	1,049	1,337
Credit card loans	28	30
Total consumer loans	1,694	1,931
Commercial	30,445	30,953
Agricultural	924	976
Total	$ 229,662	$ 195,342

The Company considers impaired loans to include non-consumer loans placed on nonaccrual and renegotiated in troubled debt restructurings. The following table presents information on the Company s recorded investment in impaired loans as of dates indicated:

	As of June 30, 2011				
	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	$ 92,806	$ 52,871	$ 32,166	$ 85,037	$ 7,823
Construction:					
Land acquisition & development	75,417	12,259	56,501	68,760	17,512
Residential	20,173	7,721	9,972	17,693	2,041

Commercial	25,547	16,146	7,504	23,650	1,921
Total construction loans	121,137	36,126	73,977	110,103	21,474
Residential	6,745	528	6,127	6,655	529
Agricultural	7,237	5,699	991	6,690	77
Total real estate loans	227,925	95,224	113,261	208,485	29,903
Commercial	39,205	8,461	24,148	32,609	13,740
Agricultural	924	558	365	923	249
Total	$ 268,054	$ 104,243	$ 137,774	$ 242,017	$ 43,892

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	As of December 31, 2010				
	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	$ 79,193	$ 31,925	$ 41,703	$ 73,628	$ 10,315
Construction:					
Land acquisition & development	48,371	24,120	20,440	44,560	8,064
Residential	18,632	2,993	13,721	16,714	3,431
Commercial	17,458	2,976	13,578	16,554	3,877
Total construction loans	84,461	30,089	47,739	77,828	15,372
Residential	8,951	1,741	7,110	8,851	1,266
Agricultural	3,045	1,065	1,432	2,497	128
Total real estate loans	175,650	64,820	97,984	162,804	27,081
Commercial	36,251	11,354	24,168	35,522	14,892
Agricultural	976	498	478	976	253
Total	$ 212,877	$ 76,672	$ 122,630	$ 199,302	$ 42,226

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

	Three months ended June 30, 2011		Six months ended June 30, 2011		Year Ended December 31,
	Average Recorded Investment	Income Recognized	Average Recorded Investment	Income Recognized	Average Recorded Investment
Real estate:					
Commercial	$ 90,625	$ 110	$ 81,429	$ 202	$ 49,713
Construction:					
Land acquisition & development	54,500	42	49,444	87	34,871
Residential	18,841	18	17,697	37	15,097
Commercial	18,306		18,811		21,086
Total construction loans	91,647	60	85,952	124	71,054
Residential	23,085	97	19,415	97	10,889

Agricultural	6,086		40	5,094		42	1,737
Total real estate loans	211,443		307	191,890		465	133,393
Commercial	29,626		23	31,505		65	22,017
Agricultural	1,003			945			974
Total	$ 242,072	$	330	$ 224,340	$	530	$ 156,384

If interest on impaired loans had been accrued, interest income on impaired loans during the three and six months ended June 30, 2011 would have been approximately $3,512 and $6,530, respectively. If interest on impaired loans had been accrued, interest income on impaired loans during the three and six months ended June 30, 2010 would have been approximately $2,117 and $4,008, respectively. At June 30, 2011, there were no material commitments to lend additional funds to borrowers whose existing loans have been renegotiated or are classified as nonaccrual.

The Company had loans renegotiated in troubled debt restructurings of $101,994 as of June 30, 2011, of which $70,383 were included in nonaccrual loans and $31,611 were on accrual status, including loans aggregating $1,011 that were more than 90 days past due and still accruing interest. The Company had loans renegotiated in troubled debt restructurings of $53,700 as of December 31, 2010, of which $40,210 were included in nonaccrual loans and $13,490 were on accrual status.

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

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

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

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

The following table presents the Company s recorded investment in criticized loans by class and credit quality indicator based on the most recent analyses performed as of the dates indicated.

As of June 30, 2011	Other Assets Especially Mentioned	Substandard	Doubtful	Total Criticized Loans
Real estate:				
Commercial	$ 141,294	$ 155,847	$ 33,228	$ 330,369
Construction:				
Land acquisition & development	47,504	25,045	56,757	129,306
Residential	4,693	7,548	12,634	24,875
Commercial		23,783	8,706	32,489
Total construction loans	52,197	56,376	78,097	186,670
Residential	12,675	28,365	8,940	49,980
Agricultural	13,546	20,028	991	34,565
Total real estate loans	219,712	260,616	121,256	601,584
Consumer:				
Indirect consumer loans	808	1,907	389	3,104
Other consumer loans	744	1,501	745	2,990
Credit card loans		467	2,859	3,326
Total consumer loans	1,552	3,875	3,993	9,420

Commercial	40,331	38,392	24,350	103,073
Agricultural	6,855	6,146	365	13,366
Total	$ 268,450	$ 309,029	$ 149,964	$ 727,443

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As of December 31, 2010	Other Assets Especially Mentioned	Substandard	Doubtful	Total Criticized Loans
Real estate:				
Commercial	$ 133,700	$ 149,604	$ 41,662	$ 324,966
Construction:				
Land acquisition & development	73,151	36,552	21,795	131,498
Residential	9,083	9,842	13,721	32,646
Commercial	9,025	18,611	13,598	41,234
Total construction loans	91,259	65,005	49,114	205,378
Residential	13,889	18,725	11,474	44,088
Agricultural	12,683	20,885	1,432	35,000
Total real estate loans	251,531	254,219	103,682	609,432
Consumer:				
Indirect consumer loans	768	1,964	315	3,047
Other consumer loans	903	1,499	1,131	3,533
Credit card loans		571	3,467	4,038
Total consumer loans	1,671	4,034	4,913	10,618
Commercial	47,307	39,145	24,280	110,732
Agricultural	5,416	6,255	478	12,149
Total	$ 305,925	$ 303,653	$ 133,353	$ 742,931

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

(4) Allowance For Loan Losses

The following tables present a summary of changes in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2011.

Three months ended June 30, 2011	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Beginning balance	$ 92,350	$ 8,992	$ 21,790	$ 1,314	$	$ 124,446
Provision charged to operating expense	10,941	563	3,798	98		15,400

Less loans charged-off	(13,157)	(1,499)	(1,407)	(39)		(16,102)
Add back recoveries of loans previously charged-off	109	470	253	3		835
Ending balance	$ 90,243	$ 8,526	$ 24,434	$ 1,376	$	$ 124,579

Six months ended June 30, 2011	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Beginning balance	$ 84,181	$ 9,332	$ 25,354	$ 1,613	$	$ 120,480
Provision charged to operating expense	23,096	1,251	6,255	(202)		30,400
Less loans charged-off	(17,388)	(2,959)	(8,049)	(45)		(28,441)
Add back recoveries of loans previously charged-off	354	902	874	10		2,140
Ending balance	$ 90,243	$ 8,526	$ 24,434	$ 1,376	$	$ 124,579

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As of June 30, 2011	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Individually evaluated for impairment	$ 29,903	$	$ 13,740	$ 249	$	$ 43,892
Collectively evaluated for impairment	60,340	8,526	10,694	1,127		80,687
Ending balance	$ 90,243	$ 8,526	$ 24,434	$ 1,376	$	$ 124,579
Individually evaluated for impairment	$ 208,485	$	$ 32,609	$ 923	$	$ 242,017
Collectively evaluated for impairment	2,585,238	626,184	691,549	132,975	3,297	4,039,243
Total loans	$ 2,793,723	$ 626,184	$ 724,158	$ 133,898	$ 3,297	$ 4,281,260

In determining the allowance for loan losses, the Company estimates 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.

The allowance for loan losses consists of three elements: (1) specific valuation allowances based on probable losses on impaired loans; (2) historical valuation allowances based on loan loss experience for similar loans with similar characteristics and trends; and (3) general valuation allowances determined based on general economic conditions and other qualitative risk factors both internal and external to us.

Specific allowances are established for loans where management has determined that probability of a loss exists by analyzing the borrower s ability to repay amounts owed, collateral deficiencies and any relevant qualitative or environmental factors impacting the loan. Historical valuation allowances are determined by applying percentage loss factors to the credit exposures from outstanding loans. For commercial, agricultural and real estate loans, loss factors are applied based on the internal risk classifications of these loans. For consumer loans, loss factors are applied on a portfolio basis. For commercial, agriculture and real estate loans, loss factor percentages are based on a migration analysis of our historical loss experience, designed to account for credit deterioration. For consumer loans, loss factor percentages are based on a one-year loss history. General valuation allowances are determined by evaluating, on a quarterly basis, changes in the nature and volume of the loan portfolio, overall portfolio quality, industry concentrations, current economic and regulatory factors and the estimated impact of current economic, environmental and regulatory conditions on historical loss rates.

The following table presents a summary of changes in the allowance for loan losses for the three and six months ended June 30, 2010:

	Three months ended June 30, 2010	Six months ended June 30, 2010
Beginning balance	$ 106,349	$ 103,030
Provision charged to operating expense	19,500	31,400

Less loans charged-off		(12,107)		(21,505)
Add back recoveries of loans previously charged-off		586		1,403
Ending balance	$	114,328	$	114,328

(5) Common Stock

The Company had 16,213,617 and 15,598,632 shares of Class A common stock outstanding as of June 30, 2011 and December 31, 2010, respectively.

The Company had 26,751,304 and 27,202,062 shares of Class B common stock outstanding as of June 30, 2011 and December 31, 2010, respectively.

(6) Earnings per Common Share

Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period presented. Diluted earnings per common share is calculated by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period.

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The following table sets forth the computation of basic and diluted earnings per share for the three and six month periods ended June 30, 2011 and 2010.

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$ 9,854	$ 6,659	$ 19,360	$ 17,789
Less preferred stock dividends	853	853	1,697	1,697
Net income available to common stockholders, basic and diluted	$ 9,001	$ 5,806	$ 17,663	$ 16,092
Weighted average common shares outstanding	42,781,894	42,620,563	42,735,897	37,133,376
Weighted average common shares issuable upon exercise of stock options and non-vested stock awards	114,717	283,433	138,031	269,087
Weighted average common and common equivalent shares outstanding	42,896,611	42,903,996	42,873,928	37,402,463
Basic earnings per common share	$ 0.21	$ 0.14	$ 0.41	$ 0.43
Diluted earnings per common share	$ 0.21	$ 0.14	$ 0.41	$ 0.43

The Company had 2,960,016 and 2,623,276 stock options outstanding for the three and six months ended June 30, 2011, respectively, that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive. The Company had outstanding options to purchase 2,325,441 and 2,380,371 shares of common stock for the three and six months ended June 30, 2010, respectively, that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive.

(7) Regulatory Capital

The Company is subject to the regulatory capital requirements administered by federal banking regulators and the Federal Reserve. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and tier 1 capital to risk-weighted assets, and of tier 1 capital to average assets, as defined in the regulations. As of June 30, 2011 and December 31, 2010, the Company exceeded all capital adequacy requirements to which it is subject.

Actual capital amounts and ratios and selected minimum regulatory thresholds for the Company and its bank subsidiary, First Interstate Bank (FIB), as of June 30, 2011 and December 31, 2010 are presented in the following table:

	Actual		Adequately Capitalized		Well Capitalized	
As of June 30, 2011:	Amount	Ratio	Amount	Ratio	Amount	Ratio

Total risk-based capital:						
Consolidated	$ 784,392	16.0%	$ 391,954	8.0%	NA	NA
FIB	646,830	13.3	389,883	8.0	$ 487,354	10.0%
Tier 1 risk-based capital:						
Consolidated	687,367	14.0	195,977	4.0	NA	NA
FIB	570,125	11.7	194,942	4.0	$ 292,412	6.0
Leverage capital ratio:						
Consolidated	687,367	9.7	283,852	4.0	NA	NA
FIB	570,125	8.1	282,948	4.0	$ 353,685	5.0

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	Actual		Adequately Capitalized		Well Capitalized	
As of December 31, 2010:	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital:						
Consolidated	$ 772,337	15.5%	$ 398,720	8.0%	NA	NA
FIB	634,976	12.8	396,754	8.0	$ 495,943	10.0%
Tier 1 risk-based capital:						
Consolidated	674,319	13.5	199,360	4.0	NA	NA
FIB	557,261	11.2	198,377	4.0	$ 297,566	6.0
Leverage capital ratio:						
Consolidated	674,319	9.3	291,023	4.0	NA	NA
FIB	557,261	7.7	290,071	4.0	$ 362,589	5.0

(8) <u>Commitments and Contingencies</u>

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

The Company had commitments under construction contracts of $4,876 as of June 30, 2011.

The Company had commitments to purchase held-to-maturity municipal investment securities of $513 as of June 30, 2011.

(9) <u>Financial Instruments with Off-Balance Sheet Risk</u>

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At June 30, 2011, commitments to extend credit to existing and new borrowers approximated $993,610, which includes $274,694 on unused credit card lines and $238,580 with commitment maturities beyond one year.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. At June 30, 2011, the Company had outstanding standby letters of credit of $71,966. The estimated fair value of the obligation undertaken by the Company in issuing the standby letters of credit is included in other liabilities in the Company s consolidated balance sheet.

(10) <u>Supplemental Disclosures to Consolidated Statement of Cash Flows</u>

The Company transferred loans of $5,763 and $14,202 to OREO during the six months ended June 30, 2011 and 2010, respectively.

The Company transferred equipment pending disposal of $1,513 to other assets during the six months ended June 30, 2010.

The Company transferred accrued liabilities of $195 and $59 to common stock in conjunction with the vesting of liability-classified non-vested stock awards during the six months ended June 30, 2011 and 2010, respectively.

The Company transferred internally originated mortgage servicing rights of $1,185 and $1,379 from loans to mortgage servicing assets during the six months ended June 30, 2011 and 2010, respectively.

(11) <u>Other Comprehensive Income</u>

Total other comprehensive income for the six months ended June 30, 2011 and 2010 is reported in the accompanying statements of changes in stockholders equity. Total other comprehensive income for the three months ended June 30, 2011 and 2010 was $22,603 and $12,334, respectively.

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Information related to net other comprehensive income is as follows:

For the six months ended June 30,	2011	2010
Other comprehensive income:		
Investment securities available-for-sale:		
Change in net unrealized gain during the period	$ 21,419	$ 11,223
Reclassification adjustment for gains included in income	(18)	(42)
Change in the net actuarial loss on defined benefit post-retirement benefit plans	69	49
Total other comprehensive income	21,470	11,230
Deferred tax expense	8,448	4,419
Net other comprehensive income	$ 13,022	$ 6,811

The components of accumulated other comprehensive income, net of income taxes, are as follows:

	June 30, 2011	December 31, 2010
Net unrealized gain on investment securities available-for-sale	$ 23,939	$ 10,959
Net actuarial loss on defined benefit post-retirement benefit plans	(1,542)	(1,584)
Net accumulated other comprehensive income	$ 22,397	$ 9,375

(12) Fair Value Measurements

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

		Fair Value Measurements at Reporting Date Using		
As of June 30, 2011	Balance as of 6/30/2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale:				
Obligations of U.S. government agencies	$ 1,012,628	$	$ 1,012,628	$
U.S. agency residential mortgage-backed securities	860,373		860,373	
Private residential mortgage-backed securities	863		863	
Mortgage servicing rights	14,607		14,607	
Derivative liability contract	122			122

		Fair Value Measurements at Reporting Date Using		
As of December 31, 2010	Balance as of 12/31/2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale:				
Obligations of U.S. government agencies	$ 953,420	$	$ 953,420	$
U.S. agency residential mortgage-backed securities	831,860		831,860	
Private residential mortgage-backed securities	1,055		1,055	
Mortgage servicing rights	13,694		13,694	
Derivative liability contract	86			86

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The following table reconciles the beginning and ending balances of the derivative liability contract measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the six months ended June 30, 2011 and 2010:

For the Six Months Ended June 30,	2011	2010
Balance, beginning of period	$ 86	$ 245
Accruals during the period	164	
Cash payments during the period	(128)	(118)
Balance, end of period	$ 122	$ 127

The following methods were used to estimate the fair value of each class of financial instrument above:

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

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

Derivative Liability Contract. In conjunction with the sale of all of its Class B shares of Visa, Inc. (Visa) common stock in 2009, the Company entered into a derivative liability contract with the purchaser whereby the Company will make or receive cash payments based on subsequent changes in the conversion rate of the Class B shares into Class A shares of Visa. The conversion rate is dependent upon the resolution of certain litigation involving Visa U.S.A. Inc. card association or its affiliates. The value of the derivative liability contract is estimated based on the Company s expectations regarding the ultimate resolution of that litigation, which involves a high degree of judgment and subjectivity. On April 6, 2011, Visa disclosed it had provided additional funding to its litigation escrow account thereby reducing the conversion rate of the Class B shares into Class A shares. During the three months ended June 30, 2011, the Company made cash payments to the purchaser of $102 due to changes in conversion rates and $26 to extend the derivative liability contract until all litigation is settled. In addition, during 2011 the Company revised its estimate of Visa s future litigation funding and increased its derivative liability contract by $164.

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

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

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for	Significant Other Observable	Significant Unobservable

As of June 30, 2011	Total	Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Impaired loans	$ 119,940	$	$	$ 119,940
Other real estate owned	18,648			18,648

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		Fair Value Measurements at Reporting Date Using		
As of December 31, 2010	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 97,574	$	$	$ 97,574
Other real estate owned	23,727			23,727

Impaired Loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from collateral. The impaired loans are reported at fair value through specific valuation allowance allocations. In addition, when it is determined that the fair value of an impaired loan is less than the recorded investment in the loan, the carrying value of the loan is adjusted to fair value through a charge to the allowance for loan losses. Collateral values are estimated using inputs based upon observable market data and customized discounting criteria.

OREO. The fair values of OREO are determined by independent appraisals or are estimated using observable market data in combination with customized discounting criteria. Upon initial recognition, write-downs based on the foreclosed asset s fair value at foreclosure are reported through charges to the allowance for loan losses. Periodically, the fair value of foreclosed assets is remeasured with any subsequent write-downs charged to OREO expense in the period in which they are identified.

Long-lived Assets to be Disposed of by Sale. Long-lived assets to be disposed of by sale are carried at the lower of carrying value or fair value less estimated costs to sell. The fair values of long-lived assets to be disposed of by sale are based upon observable market data and customized discounting criteria. As of June 30, 2011 and December 31, 2010, the Company had one long-lived asset to be disposed of by sale carried at its cost of $1,513.

In addition, mortgage loans held for sale are required to be measured at the lower of cost or fair value. The fair value of mortgage loans held for sale is based upon binding contracts or quotes or bids from third party investors. As of June 30, 2011 and December 31, 2010, all mortgage loans held for sale were recorded at cost.

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

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

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

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

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
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(In thousands, except share and per share data)

A summary of the estimated fair values of financial instruments follows:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 415,491	$ 415,491	$ 685,618	$ 685,618
Investment securities available-for-sale	1,873,864	1,873,864	1,786,335	1,786,335
Investment securities held-to-maturity	148,865	153,448	147,068	146,508
Net loans	4,156,681	4,141,877	4,247,429	4,222,984
Accrued interest receivable	33,588	33,588	33,628	33,628
Mortgage servicing rights, net	13,218	14,607	13,191	13,694
Total financial assets	$ 6,641,707	$ 6,632,875	$ 6,913,269	$ 6,888,767
Financial liabilities:				
Total deposits, excluding time deposits	$ 4,046,492	$ 4,046,492	$ 4,000,468	$ 4,000,468
Time deposits	1,748,173	1,758,786	1,925,245	1,936,011
Securities sold under repurchase agreements	435,039	435,039	620,154	620,154
Derivative contract	122	122	86	86
Accrued interest payable	11,712	11,712	13,178	13,178
Other borrowed funds	5,440	5,440	4,991	4,991
Long-term debt	37,480	40,541	37,502	40,031
Subordinated debentures held by subsidiary trusts	123,715	129,094	123,715	128,954
Total financial liabilities	$ 6,408,173	$ 6,427,226	$ 6,725,339	$ 6,743,873

(13) Recent Authoritative Accounting Guidance

FASB ASC Topic 220, Comprehensive Income. The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05 under Accounting Standards Codification (ASC) Topic 220, Comprehensive Income. ASU No. 2011-05 allows an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in separate but consecutive statements. ASU No. 2011-05 is effective for the Company on January 1, 2012, and is to be applied retrospectively to all periods presented. Management does not expect the adoption of ASU No. 2011-05 will have a significant impact on the Company s consolidated financial statements, results of operations or liquidity.

FASB ASC Topic 820, Fair Value Measurements and Disclosures. New authoritative accounting guidance, ASU No. 2011-04, under ASC Topic 820 represents the converged guidance of the FASB and the International Accounting Standards Board (collectively, the Boards) on fair value measurement. The collective efforts of the Boards and their staffs have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. ASU No. 2011-04 is effective for the Company on January 1, 2012. Management does not expect the adoption of ASU No. 2011-04 will have a significant impact on the Company s consolidated financial statements, results of operations or liquidity.

FASB ASC Topic 860, Transfers and Servicing. New authoritative accounting guidance, ASU No. 2011-03, under ASC Topic 860, Transfers and Servicing, is intended to improve financial reporting or repurchase agreements and other agreement that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU No. 2011-03 removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in ASU No. 2011-03 are effective for the Company on January 1, 2012. Management does not expect the adoption of ASU No. 2011-03 will have a significant impact on the Company s consolidated financial statements, results of operations or liquidity.

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FASB ASC Topic 310, Receivables. New authoritative accounting guidance, ASU No. 2011-02, under Topic 310, Receivables, requires significant new disclosures about the nature, extent and financial impact of troubled debt restructurings presented at the level of disaggregation that management uses when assessing and monitoring the portfolio s risk and performance. ASU No. 2011-02 also provides additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. ASU No. 2011-02 is effective for the Company on July 1, 2011, and is to be applied retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. Management does not expect the adoption of ASU 2011-02 will have a significant impact on the Company s consolidated financial statements, results of operations or liquidity.

FASB ASC Topic 350, Intangibles Goodwill and Other. New authoritative accounting guidance under ASC Topic 350, Intangibles Goodwill and Other, amends prior guidance. Under this amended guidance, an entity is required to perform Step 2 of the goodwill impairment test if the reporting unit has a zero or negative carrying amount and if it is more likely than not that impairment exists. This guidance, which became effective for the Company on January 1, 2011, did not impact the Company s consolidated financial statements, results of operations or liquidity.

(14) Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date financial statements were filed with the Securities and Exchange Commission. No events requiring disclosure were identified.

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Item 2.
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010, including the audited financial statements contained therein, filed with the SEC.

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

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

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, (the Exchange Act) 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 suc would, should, could, might, may or similar expressions. Forward-looking statements involve known and unkno 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:

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 release:

- 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;

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; and

subordination of common stock to Company debt.

A more detailed discussion of each of the foregoing risks is included in our Annual Report on Form 10-K for the year ended December 31, 2010, filed February 28, 2011. These factors and other risk factors described in our periodic and current reports filed with the Securities and Exchange Commission from time to time, however, 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 June 30, 2011, we had consolidated assets of $7,203 million, deposits of $5,795 million, loans of $4,281 million and total stockholders equity of $759 million. We currently operate 71 banking offices in 42 communities located in Montana, Wyoming and western South Dakota. Through our bank subsidiary, First Interstate Bank, or 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, healthcare and professional services, education and governmental services, construction, mining, agriculture, 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.

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Recent Trends and 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. These rules became effective on July 21, 2011. Management does not expect this change will have a significant impact on the Company s interest expense, consolidated financial statements, results of operations or liquidity.

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. Regulation II reduces the maximum allowable interchange fee per transaction to $0.21 plus a fraud allowance of five basis points on the transaction value and provides for an additional $0.01 fraud prevention on to the interchange fee for issuers that meet certain fraud prevention requirements. The debit card interchange fee limitations and fraud prevention adjustment provisions of Regulation II become effective October 1, 2011. Issuers with less than $10 billion in assets, like us, are exempt from the debit card interchange fee limitations set by Regulation II, although the payment card networks could make other fee adjustments for smaller issuers. The Company recorded debit card interchange fees of $2.9 million and $5.7 million during the three and six months ended June 30, 2011, respectively.

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 the Company s FDIC insurance premiums.

Our success is highly dependent on economic conditions and market interest rates. Because we operate in Montana, Wyoming and western South Dakota, the local economic conditions in each of these areas are particularly important. Our local economies entered the recession later than many areas of the United States and are now just beginning to show some signs of recovery. Although the continuing impact of the national recession and related real estate and financial market conditions is uncertain, these factors affect our business and could have a material negative effect on our cash flows, results of operations, financial condition and prospects.

Asset Quality

Difficult economic conditions and depressed real estate values and sales activity continued to negatively impact businesses and consumers in our market areas, especially in the Flathead, Gallatin Valley and Jackson market areas with economies dependent upon resort and second home communities. Our non-performing assets increased to $292 million, or 6.77% of total loans and OREO, as of June 30, 2011, from $244 million, or 5.55% of total loans and OREO, as of December 31, 2010. Approximately 46% of our non-performing assets were attributable to the Flathead, Gallatin Valley and Jackson market areas. Loan charge-offs, net of recoveries, totaled $15 million during the second quarter of 2011, as compared to $12 million during second quarter 2010. Approximately 78% of second quarter 2011 net charge-offs were attributable to the Flathead, Gallatin Valley and Jackson market areas. Net charge-offs are expected to remain elevated in future quarters as previously identified problem loans continue to work through the credit cycle. During second quarter 2011, we recorded provisions for loan losses of $15.4 million, as compared to $19.5 million during second quarter 2010. Management expects provisions for loan losses to decline as credit quality improves.

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 net interest income, non-interest income, non-interest expense and net income.

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 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 we evaluate our net interest income on factors that include the yields on our loans and other earning assets, the costs of our deposits and other funding sources, the levels of our net interest spread and net interest margin and the provisions for loan losses required to maintain our allowance for loan losses at an adequate level.

Non-interest income. Our principal sources of non-interest income include (1) income from the origination and sale of loans, (2) other service charges, commissions and fees, (3) service charges on deposit accounts, (4) wealth management revenues and (5) other income. 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. 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. Wealth management revenues principally comprise fees earned for management of trust assets and investment services revenues. Fees earned for management of trust assets are generally based on the market value of assets managed. Other income primarily includes company-owned life insurance revenues, check printing income, agency stock dividends and gains on sales of miscellaneous assets. 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.

Non-interest expense. Non-interest expenses include (1) salaries, wages and employee benefits expense, (2) occupancy expense, (3) furniture and equipment expense, (4) FDIC insurance premiums, (5) outsourced technology services expense, (6) amortization and impairment of mortgage servicing rights, (7) OREO expense, net of income, (8) core deposit intangibles amortization and (9) other expenses, which primarily includes 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. OREO expense is recorded net of OREO income. Variations in net OREO expense between periods is primarily due to write-downs of the estimated fair value of OREO properties, fluctuations in gains and losses recorded on sales of OREO properties, and fluctuations in the carrying costs and/or operating expenses associated with OREO properties. 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.

Net Income. We seek to increase our net income and provide favorable stockholder 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, our ratio of loans to deposits and our reliance on brokered certificates of deposit or other wholesale funding sources.

We seek to maintain a diverse and high quality loan portfolio. We 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 potential 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 regulatory and financial capital ratios including leverage capital ratio, tier 1 risk-based capital ratio, total risk-based capital ratio, tangible common equity to tangible assets and tier 1 common capital to total risk-weighted assets.

Critical Accounting Estimates and Significant Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which we operate. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant accounting policies we follow are presented in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

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, liquidity or results of operations. The allowance for loan losses is maintained at an amount we believe is sufficient to provide for estimated losses inherent in our loan portfolio at each balance sheet date, and fluctuations in the provision for loan losses result from management s assessment of the adequacy of the allowance for loan losses. Management monitors qualitative and quantitative trends in the loan portfolio, including changes in the levels of past due, internally

classified and non-performing loans. Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 describes the methodology used to determine the allowance for loan losses. A discussion of the factors driving changes in the amount of the allowance for loan losses is included herein under the heading Asset Quality.

Goodwill

The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely an impairment has occurred. In testing for impairment, the fair value of net assets is estimated based on an analysis of our market value. Determining the fair value of goodwill is considered a critical accounting estimate because of its sensitivity to market-based trading of our Class A common stock. 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 the market and changes in assumptions or subjective measurements used to allocate fair value are reasonably possible and may have a material impact on our consolidated financial statements, liquidity or results of operations. Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 describes our accounting policy with regard to goodwill.

Valuation of Mortgage Servicing Rights

We recognize as assets the rights to service mortgage loans for others, whether acquired or internally originated. Mortgage servicing rights are carried on the consolidated balance sheet at the lower of amortized cost or fair value. We utilize the expertise of a third-party consultant to estimate the fair value of our mortgage servicing rights quarterly. In evaluating the mortgage servicing rights, the consultant uses discounted cash flow modeling techniques, which require estimates regarding the amount and timing of expected future cash flows, including assumptions about loan repayment rates based on current industry expectations, costs to service and predominant risk characteristics of the underlying loans as well as interest rate assumptions that contemplate the risk involved. Management believes the valuation techniques and assumptions used by the consultant are reasonable.

Determining the fair value of mortgage servicing rights is considered a critical accounting estimate because of the assets sensitivity to changes in estimates and assumptions used, particularly loan prepayment speeds and discount rates. 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. Notes 1 and 8 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 describe the methodology we use to determine fair value of mortgage servicing rights.

Other Real Estate Owned

Real estate acquired in satisfaction of loans is initially carried at current fair value less estimated selling costs. The carrying amount of the underlying loan is written down to the fair value of the real estate acquired by charge to the allowance for loan losses, if necessary. 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. Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 describes our accounting policy with regard to OREO.

Results of Operations

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

Net Interest Income. During second quarter 2011, our net interest income on a fully taxable equivalent, or FTE, basis, decreased $647 thousand, or 1.0%, to $63.7 million, as compared to $64.3 million during the same period in 2010, and our net FTE interest margin ratio decreased 12 basis points to 3.84%, as compared to 3.96% during the same period in 2010. For the six months ended June 30, 2011, our net FTE interest income decreased $537 thousand, or less than 1.0%, to $126.6 million, as compared to $127.1 million during the same period in 2010, and our net FTE interest margin ratio decreased 20 basis points to 3.78%, as compared to 3.98% during the same period in 2010. Although net FTE interest income remained stable, our net FTE interest margin ratio decreased during the three and six months ended June 30, 2011, as compared to the same periods in the prior year. Compression in the net FTE interest margin ratio was primarily due to diminished loan demand combined with lower interest rates earned on loans and investment securities, the effects of which were partially offset by decreases in average time deposits outstanding,

overall reductions in the cost of funds and increases in interest free funding sources as a percentage of the funding base.

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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)

	Three Months Ended June 30,					
	2011			2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:						
Loans (1)(2)	$ 4,269,637	$ 61,926	5.82%	$ 4,520,119	$ 67,964	6.03%
Investment securities (2)	2,019,187	12,533	2.49	1,586,080	12,780	3.23
Interest bearing deposits in banks	359,446	227	0.25	407,656	257	0.25
Federal funds sold	3,871	6	0.62	4,408	5	0.45
Total interest earning assets	6,652,141	74,692	4.50%	6,518,263	81,006	4.98%
Non earning assets	617,221			679,514		
Total assets	$ 7,269,362			$ 7,197,777		
Interest bearing liabilities:						
Demand deposits	$ 1,263,466	$ 847	0.27%	$ 1,116,216	$ 870	0.31%
Savings deposits	1,711,210	1,753	0.41	1,465,527	2,327	0.64
Time deposits	1,780,542	6,303	1.42	2,209,155	11,299	2.05
Repurchase agreements	469,459	171	0.15	465,573	229	0.20
Other borrowed funds	5,459			5,562	1	0.07
Long-term debt	37,485	495	5.30	38,170	509	5.35
Subordinated debentures held by subsidiary trusts	123,715	1,455	4.72	123,715	1,456	4.72
Total interest bearing liabilities	5,391,336	11,024	0.82%	5,423,918	16,691	1.23%
Non-interest bearing deposits	1,089,909			982,053		
Other non-interest bearing liabilities	47,791			60,457		
Stockholders equity	740,326			731,349		

Total liabilities and stockholders equity	$ 7,269,362			$ 7,197,777		
Net FTE interest income		$ 63,668			$ 64,315	
Less FTE adjustments (2)		(1,141)			(1,139)	
Net interest income from consolidated statements of income		$ 62,527			$ 63,176	
Interest rate spread			3.68%			3.75%
Net FTE interest margin (3)			3.84%			3.96%
Cost of funds, including non-interest bearing demand deposits (4)			0.68%			1.05%

(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 an FTE basis.

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

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

Average Balance Sheets, Yields and Rates
(Dollars in thousands)

	Six Months Ended June 30,					
	2011			2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:						
Loans (1)(2)	$ 4,286,512	$ 124,762	5.87%	$ 4,511,518	$ 135,324	6.05%
Investment securities (2)	1,984,000	24,291	2.47	1,539,216	25,822	3.38
Interest bearing deposits in banks	472,994	594	0.25	381,312	481	0.25
Federal funds sold	3,061	9	0.59	10,796	18	0.34
Total interest earning assets	6,746,567	149,656	4.47%	6,442,842	161,645	5.06%
Non earning assets	619,837			683,664		
Total assets	$ 7,366,404			$ 7,126,506		
Interest bearing liabilities:						
Demand deposits	$ 1,256,414	$ 1,681	0.27%	$ 1,114,857	$ 1,709	0.31%
Savings deposits	1,727,886	3,753	0.44	1,443,953	4,643	0.65
Time deposits	1,827,269	13,340	1.47	2,233,631	23,422	2.11
Repurchase agreements	519,392	408	0.16	460,125	423	0.19
Other borrowed funds	5,577			6,016	2	0.07
Long-term debt	37,490	984	5.29	54,606	1,428	5.27
Subordinated debentures held by subsidiary trusts	123,715	2,903	4.73	123,715	2,894	4.72
Total interest bearing liabilities	5,497,743	23,069	0.85%	5,436,903	34,521	1.28%
Non-interest bearing deposits	1,080,379			970,966		
Other non-interest bearing liabilities	49,395			61,964		
Stockholders equity	738,887			656,673		
	$ 7,366,404			$ 7,126,506		

Total liabilities and stockholders equity				
Net FTE interest income	$ 126,587		$ 127,124	
Less FTE adjustments (2)	(2,262)		(2,279)	
Net interest income from consolidated statements of income	$ 124,325		$ 124,845	
Interest rate spread		3.62%		3.78%
Net FTE interest margin (3)		3.78%		3.98%
Cost of funds, including non-interest bearing demand deposits (4)		0.71%		1.09%

(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 an FTE basis.

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

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

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

Analysis of Interest Changes Due To Volume and Rates

(Dollars in thousands)

	Three Months Ended June 30, 2011 Compared with 2010			Six Months Ended June 30, 2011 Compared with 2010		
	Volume	Rate	Net	Volume	Rate	Net
Interest earning assets:						
Loans (1)	$ (3,766)	$ (2,272)	$ (6,038)	$ (6,749)	$ (3,813)	$ (10,562)
Investment securities (1)	3,490	(3,737)	(247)	7,462	(8,993)	(1,531)
Interest bearing deposits in banks	(30)		(30)	116	(3)	113
Federal funds sold	(1)	2	1	(13)	4	(9)
Total change	(307)	(6,007)	(6,314)	816	(12,805)	(11,989)
Interest bearing liabilites:						
Demand deposits	115	(138)	(23)	217	(245)	(28)
Savings deposits	390	(964)	(574)	913	(1,803)	(890)
Time deposits	(2,192)	(2,804)	(4,996)	(4,261)	(5,821)	(10,082)
Repurchase agreements	2	(60)	(58)	54	(69)	(15)
Other borrowed funds		(1)	(1)		(2)	(2)
Long-term debt	(9)	(5)	(14)	(448)	4	(444)
Subordinated debentures		(1)	(1)		9	9
Total change	(1,694)	(3,973)	(5,667)	(3,525)	(7,927)	(11,452)
Increase in FTE net interest income	$ 1,387	$ (2,034)	$ (647)	$ 4,341	$ (4,878)	$ (537)

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

Provision for Loan Losses. The provision for loan losses decreased $4.1 million, or 21.0%, to $15.4 million for second quarter 2011, as compared $19.5 million for second quarter 2010. The provision for loan losses decreased $1.0 million, or 3.2%, to $30.4 million for the six months ended June 30, 2011, compared to $31.4 million for the same period in 2010. Fluctuations in provisions for loan losses reflect management s estimate of the estimated effects of current economic conditions on our loan portfolio. Management expects quarterly provisions for loan losses to remain at current levels until non-performing loans level-off or begin to decline. For information regarding our non-performing loans, see Non-Performing Assets included herein.

Non-interest Income. Our principal sources of non-interest income include other service charges, commissions and fees, service charges on deposit accounts, income from the origination and sale of loans, and revenues from wealth

management. Non-interest income increased $554 thousand, or 2.6%, to $21.6 million for the three months ended June 30, 2011, as compared to $21.0 million for the same period in 2010. Non-interest income increased $1.2 million, or 3.0%, to $41.8 million for the six months ended June 30, 2011, as compared to $40.5 million for the same period in 2010. Significant components of changes in non-interest income 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 $388 thousand, or 5.3%, to $7.8 million during the three months ended June 30, 2011, as compared to $7.4 million during the same period in 2010, and $896 thousand, or 6.3%, to $15.1 million for the six months ended June 30, 2011, as compared to $14.3 million for the same period in 2010. These increases were primarily attributable to higher interchange income resulting from higher volumes of debit and credit card transactions. During the three and six months ended June 30, 2011, we recorded debit card interchange fee income of $2.9 million and $5.7 million, respectively, as compared to $2.5 million and $4.8 million, respectively, during the same periods in 2010. For additional information regarding recent regulations affecting future debit card interchange fee income, see Recent Trends and Developments included herein.

Service charges on deposit accounts decreased $374 thousand, or 7.9%, to $4.4 million during the three months ended June 30, 2011, as compared to $4.8 million during the same period in 2010, and $862 thousand, or 9.2%, to $8.5 million during the six months ended June 30, 2011, as compared to $9.4 million during the same period in 2010. Quarter-to-date and year-to-date decreases in service charges on deposit accounts are primarily due to a reduction in overdraft fees assessed due to changes in customer utilization.

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. Income from the origination and sale of loans increased $664 thousand, or 19.3%, to $4.1 million during the second quarter of 2011, as compared to $3.4 million during the first quarter of 2011, primarily due to seasonal fluctuations in new home purchases. Income from the origination and sale of loans decreased $77 thousand, or 1.8%, to $4.1 million for the three months ended June 30, 2011, as compared to $4.2 million for the same period in 2010, and increased $68 thousand, or less than 1.0%, to $7.6 million for the six months ended June 30, 2011, as compared to $7.5 million for the same period in 2010.

Wealth management revenues are comprised principally of fees earned for management of trust assets and investment services revenues. Fees earned for management of trust assets are generally based on the market value of assets managed. Wealth management revenues increased $284 thousand, or 8.9%, to $3.5 million for the three months ended June 30, 2011, as compared to $3.2 million for the same period in 2010, and $565 thousand, or 9.1%, to $6.8 million for the six months ended June 30, 2011, as compared to $6.2 million for the same period in 2010. These increases were primarily due to new business activity and increases in the market values of assets under trust management.

Other income increased $332 thousand, or 22.2%, to $1.8 million for the three months ended June 30, 2011, compared to $1.5 million for the same period in 2010, and increased $562 thousand, or 17.6%, to $3.8 million for the six months ended June 30, 2011, compared to $3.2 million for the same period in 2010. Quarter and year-to-date increases are primarily due to fluctuations in earnings on securities held under deferred compensation plans.

Non-interest Expense. Non-interest expense decreased $1.2 million, or 2.2%, to $54.2 million for the three months ended June 30, 2011, as compared to $55.4 million for the same period in 2010, and decreased $1.0 million, or less than 1.0%, to $107.2 million for the six months ended June 30, 2011, as compared to $108.2 million for the same period in 2010. Significant components of the changes in non-interest expense are discussed below.

FDIC insurance premiums decreased $1.0 million, or 38.9%, to $1.6 million for the three months ended June 30, 2011, as compared to $2.7 million for the same period in 2010, and $1.0 million, or 20.1%, to $4.1 million for the six months ended June 30, 2011, as compared to $5.1 million for the same period 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. For additional information regarding FDIC insurance, see Recent Trends and Developments included herein.

OREO expense is recorded net of OREO income. Variations in net OREO expense between periods are primarily due to write-downs of the estimated fair value of OREO properties, fluctuations in gains and losses recorded on sales of OREO properties and fluctuations in the carrying costs and/or operating expenses associated with OREO properties. OREO expense decreased $938 thousand, or 31.5%, to $2.0 million during second quarter 2011, as compared to $3.0 million for the same period in 2010. OREO expenses increased $232 thousand, or 6.6%, to $3.8 million for the six months ended June 30, 2011, as compared to $3.5 million for the same period in 2010.

Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. Changes in estimated servicing period and growth in the serviced loan portfolio cause amortization expense to vary between periods. The period of estimated net servicing income is significantly influenced by market interest rates. We project our amortization of mortgage servicing rights based on prepayment assumptions on the first day of each quarter. Mortgage servicing rights amortization decreased $444 thousand, or 39.8%, to $671 thousand for the three months ended June 30, 2011, as compared to $1.1 million for the same period in 2010, and decreased $770 thousand, or 34.3%, to $1.5 million for the six months ended June 30, 2011, as compared to $2.2 million for the same period in 2010. These decreases were primarily due to the sale of mortgage servicing rights during fourth quarter 2010 and

changes in the estimated duration of the loans underlying the Company s capitalized mortgage servicing rights.

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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 the second quarter of 2011 we recorded additional impairment of $27 thousand, as compared to additional impairment of $271 thousand during second quarter 2010. During the six months ended June 30, 2011, we reversed previously recorded impairment of $320 thousand, as compared to recording additional impairment of $221 thousand during the same period in 2010.

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 directors fees; and other losses. Other expenses increased $1.4 million, or 13.1%, to $12.2 million for the three months ended June 30, 2011, as compared to $10.8 million for the three months ended June 30, 2010, and increased $1.6 million, or 7.4%, to $22.8 million for the six months ended June 30, 2011, as compared to $21.2 million during the same period in 2010. The increases were primarily due to fluctuations in the timing of expenses, most significantly advertising and legal expenses.

Income Tax Expense. Our effective federal income tax rate was 27.5% for the six months ended June 30, 2011 and 26.8% for the six months ended June 30, 2010. State income tax applies primarily to pretax earnings generated within Montana and South Dakota. Our effective state tax rate was 4.6% for the six months ended June 30, 2011, and 4.3% for the six months ended June 30, 2010. Changes in effective federal and state income tax rates are primarily fluctuations in tax exempt interest income as a percentage of total income.

Financial Condition

Total assets decreased $298 million, or 4.0%, to $7,203 million as of June 30, 2011, from $7,501 million as of December 31, 2010.

Loans. Fluctuations in the loan portfolio are directly related to the economies of the communities we serve. Total loans decreased $87 million, or 2.0%, to $4,281 million as of June 30, 2011 from $4,368 million as of December 31, 2010, with all major categories of loans showing decreases except residential real estate loans. Management attributes decreases in loans to a general decline in new home construction in our market areas, particularly in markets dependent upon resort and second home communities including the Flathead, Gallatin Valley and Jackson market areas, sluggish consumer growth amid economic uncertainty, and to a lesser extent, the movement of lower quality loans out of the loan portfolio through charge-off, pay-off or foreclosure.

Residential real estate loans increased $29 million, or 5.3%, to $579 million as of June 30, 2011, from $550 million as of December 31, 2010. We typically sell a significant portion of our residential real estate loan production to secondary investors. In mid-2010, we began to retain more of our residential real estate loan production. Residential real estate loans retained are typically secured by first liens on the financed property and generally mature in less than fifteen years.

Non-performing Assets. Non-performing assets include loans past due 90 days or more and still accruing interest, non-accrual loans, loans renegotiated in troubled debt restructurings and OREO. Restructured loans are loans on which we have granted a concession on the interest rate or original repayment terms due to financial difficulties of the borrower that we would not otherwise consider. 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, if necessary. Estimated losses that result from the ongoing periodic valuation of these properties are charged to earnings in the period in which they are identified.

We generally place loans on nonaccrual when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on nonaccrual status, any interest previously accrued but not collected is reversed from income.

The following table sets forth information regarding non-performing assets as of the dates indicated:

Non-Performing Assets

(Dollars in thousands)

	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Non-performing loans:					
Non-accrual loans	$ 229,662	212,394	$ 195,342	$ 174,249	$ 139,975
Accruing loans past due 90 days or more	2,194	4,140	1,852	1,129	7,550
Restructured loans	31,611	33,344	13,490	26,630	10,588
Total non-performing loans	263,467	249,878	210,684	202,008	158,113
OREO	28,323	31,995	33,632	35,296	42,338
Total non-performing assets	$ 291,790	281,873	$ 244,316	$ 237,304	$ 200,451
Non-performing loans to total loans	6.15%	5.86%	4.82%	4.54%	3.47%
Non-performing assets to total loans and OREO	6.77%	6.56%	5.55%	5.29%	4.35%
Non-performing assets to total assets	4.05%	3.79%	3.26%	3.24%	2.77%

Non-performing assets increased $47 million, or 19.4%, to $292 million, or 6.77% of total loans and OREO, as of June 30, 2011, from $244 million, or 5.55% of total loans and OREO, as of December 31, 2010. During the first half of 2011, difficult economic conditions continued to negatively impact businesses and consumers in certain of our market areas.

Total non-performing loans increased $53 million, or 25.0%, to $263 million as of June 30, 2011, from $211 million as of December 31, 2010, primarily due to increases in restructured and non-accrual loans. Nonaccrual loans increased $34 million, or 17.6%, to $230 million as of June 30, 2011, from $195 million as of December 31, 2010. During second quarter 2011, we placed loans of one land development borrower aggregating $15 million on non-accrual status. The remaining increase was primarily due to loans of one land development, one commercial construction and two commercial real estate borrowers aggregating $25 million that were placed on nonaccrual during first quarter 2011. These additions were partially offset by a $5 million pay-off of the loans of one commercial real estate borrower and a $6 million charge-off of the loans of one commercial borrower. As of June 30, 2011, approximately 67% of our non-accrual loans were current with regard to principal.

Restructured loans increased $18 million, or 134.3% to $32 million as of June 30, 2011, from $13 million as of December 31, 2010. Approximately 73% of the increase in restructured loans was due to the loans of one residential real estate and one commercial real estate borrower restructured during first quarter 2011. As of June 30, 2011, approximately 96% of restructured loans were performing in accordance with their modified terms.

OREO consists of real property acquired through foreclosure on the related collateral underlying defaulted loans. We record OREO at the lower of carrying value or fair value less estimated costs to sell. Estimated losses that result

from the ongoing periodic valuation of these properties are charged to earnings in the period in which they are identified. OREO decreased $6 million, or 15.8%, to $28 million as of June 30, 2011, from $34 million as of December 31, 2010. During the first half of 2011, the Company recorded additions to OREO of $6 million, wrote down the fair value of OREO properties by $4 million and sold OREO with a book value of $8 million. As of June 30, 2011, approximately 71% of total OREO was comprised of properties located in the Flathead, Gallatin Valley and Jackson market areas.

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

Non-Performing Loans by Loan Type

(Dollars in thousands)

	June 30, 2011	Percent of Total	December 31, 2010	Percent of Total
Real estate:				
Commerical	$ 86,188	32.7%	$ 73,449	34.9%
Construction:				
Land acquisition and development	68,520	26.0%	44,546	21.1%
Residential	17,693	6.7%	16,679	7.9%
Commercial	23,650	9.0%	16,589	7.9%
Total construction	109,863	41.7%	77,814	36.9%
Residential	22,162	8.4%	15,222	7.2%
Agricultural	6,617	2.5%	3,476	1.6%
Total real estate	224,830	85.3%	169,961	80.7%
Consumer	3,960	1.5%	2,720	1.3%
Commercial	31,567	12.0%	36,906	17.5%
Agricultural	3,110	1.2%	1,093	0.5%
Other		0.0%	4	0.0%
Total non-performing loans	$ 263,467	100.0%	$ 210,684	100.0%

Allowance for Loan Losses. 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.

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

Allowance for Loan Losses

(Dollars in thousands)

	Three Months Ended				
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Balance at beginning of period	$ 124,446	120,480	$ 120,236	$ 114,328	$ 106,349
Provision charged to operating expense	15,400	15,000	17,500	18,000	19,500
Charge offs:					
Real estate					
Commercial	5,005	1,186	2,835	2,082	3,469
Construction	7,404	1,546	6,025	5,121	5,940
Residential	748	1,499	2,269	788	262
Agricultural			2,218	20	
Consumer	1,500	1,460	1,966	2,056	1,699
Commerical	1,407	6,642	2,713	2,720	737
Agricultural	38	6	19	2	
Total charge-offs	16,102	12,339	18,045	12,789	12,107
Recoveries:					
Real estate					
Commercial	11	125	20	3	2
Construction	50	92	18	45	6
Residential	48	28	105	5	13
Agricultural					
Consumer	470	432	479	505	471
Commerical	253	621	153	137	91
Agricultural	3	7	14	2	3
Total recoveries	835	1,305	789	697	586
Net charge-offs	15,267	11,034	17,256	12,092	11,521
Balance at end of period	$ 124,579	124,446	$ 120,480	120,236	114,328
Period end loans	$ 4,281,260	4,263,764	$ 4,367,909	4,452,387	4,562,288
Average loans	4,269,637	4,303,575	4,402,141	4,504,657	4,520,119
Annualized net loans charged off to average loans	1.43%	1.04%	1.56%	1.06%	1.02%
Allowance to period end loans	2.91%	2.92%	2.76%	2.70%	2.51%

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, future provisions will be subject to on-going evaluations of the risks in the loan portfolio. If the economy declines or asset quality deteriorates, material additional provisions could be required.

Investment Securities. We manage our investment portfolio to obtain the highest yield possible, while meeting our risk tolerance and liquidity guidelines and satisfying the pledging requirements for deposits of state and political subdivisions and securities sold under repurchase agreements. Investment securities increased $89 million, or 4.6%, to $2,023 million, or 28.1% of total assets, as of June 30, 2011, from $1,933 million, or 25.8% of total assets, as of December 31, 2010. During the first half of 2011, excess liquidity was used to purchase primarily available-for-sale U.S. government agency investment securities.

We evaluate our investment portfolio quarterly for other-than-temporary declines in the market value of individual investment securities. This evaluation includes monitoring credit ratings; market, industry and corporate news; volatility in market prices; and, determining whether the market value of a security has been below its cost for an extended period of time. As of June 30, 2011, we had investment securities with fair values of $3 million that had been in a continuous loss position more than twelve months. Gross unrealized losses on these securities totaled $91 thousand as of June 30, 2011, and were primarily attributable to changes in interest rates. No impairment losses were recorded during the three or six months ended June 30, 2011 or 2010.

Deposits. Our deposits consist of non-interest bearing and interest bearing demand, savings, individual retirement and time deposit accounts. Total deposits decreased $131 million, or 2.2%, to $5,795 million as of June 30, 2011, from $5,926 million as of December 31, 2010, with a shift in the mix of deposits away from higher-costing time deposits to lower-costing savings, interest bearing demand and non-interest bearing demand deposits. The following table summarizes our deposits as of the dates indicated:

Deposits

(Dollars in thousands)

	June 30, 2011	Percent of Total	December 31, 2010	Percent of Total
Non-interest bearing demand	$ 1,109,905	19.2%	$ 1,063,869	18.0%
Interest bearing:				
Demand	1,233,039	21.3	1,218,078	20.6
Savings	1,703,548	29.4	1,718,521	28.9
Time, $100 and over	772,567	13.3	908,044	15.3
Time, other (1)	975,606	16.8	1,017,201	17.2
Total interest bearing	4,684,760	80.8	4,861,844	82.0
Total deposits	$ 5,794,665	100.0%	$ 5,925,713	100.0%

(1) Included in Time, other are Certificate of Deposit Account Registry Service, or CDAR, deposits of $144 million as of June 30, 2011 and $139 million as of December 31, 2010.

Repurchase Agreements. In addition to deposits, repurchase agreements with commercial depositors provide an additional source of funds. Under repurchase agreements, deposit balances are invested in short-term U.S. government agency residential securities overnight and are then repurchased the following day. All outstanding repurchase agreements are due in one day. Repurchase agreements decreased $185 million, or 29.8%, to $435 million as of June 30, 2011, from $620 million as of December 31, 2010, due to fluctuations in the liquidity of our customers.

Capital Resources and Liquidity Management

Stockholders equity is influenced primarily by earnings, dividends, changes in the unrealized holding gains or losses, net of taxes, on available-for-sale investment securities and sales and redemptions of common stock. Stockholders equity increased $22 million, or 3.1% to $759 million as of June 30, 2011, from $737 million as of December 31, 2010, primarily due to increases in unrealized holding gains on available-for-sale investment securities and the retention of earnings.

On June 13, 2011, we declared a quarterly dividend to common stockholders of $0.1125 per share to be paid on July 15, 2011 to shareholders of record as of July 1, 2011. During the first half of 2011, we paid aggregate cash dividends of $9.6 million, or $0.225 per share, to common stockholders, as compared to aggregate cash dividends of $8.3 million, or $0.225 per share, to common shareholders during the same period in 2010. In addition, we paid dividends of$1.7 million to preferred stockholders during each of the six month periods ended June 30, 2011 and 2010.

Pursuant to the Federal Deposit Insurance Corporation Improvement Act, the Federal Reserve and FDIC have adopted regulations setting forth a five-tier system for measuring the capital adequacy of the financial institutions they supervise. As of June 30, 2011 and December 31, 2010, the Bank had capital levels that, in all cases, exceeded the well-capitalized guidelines. As of June 30, 2011, we had consolidated leverage, tier 1 and total risk-based capital ratios of 9.69%, 14.01% and 16.01%, respectively, as compared to 9.27%, 13.53% and 15.50%, respectively, as of

December 31, 2010.

Liquidity. Liquidity measures our ability to meet current and future cash flow needs on a timely basis and at a reasonable cost. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders. Our liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash, interest bearing deposits in banks, federal funds sold, available-for-sale investment securities and maturing or prepaying balances in our held-to-maturity investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and borrowings. Other sources of liquidity include the sale of loans, the ability to acquire additional national market, non-core deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, additional borrowings through the Federal Reserve s discount window and the issuance of preferred or common securities.

Our short-term and long-term liquidity requirements are primarily to fund on-going operations, including payment of interest on deposits and debt, extensions of credit to borrowers, capital expenditures and shareholder dividends. These liquidity requirements are met primarily through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits. For additional information regarding our operating, investing and financing cash flows, see the unaudited Consolidated Statements of Cash Flows, included in Part I, Item 1.

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

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

Recent Accounting Pronouncements

See Note 13 Authoritative Accounting Guidance in the accompanying Notes to Unaudited Consolidated Financial Statements included in this report for details of recently issued accounting pronouncements and their expected impact on our financial statements.

Item 3.
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2011, there have been no material changes in the quantitative and qualitative information about market risk provided pursuant to Item 305 of Regulation S-K as presented in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4.
CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. As of June 30, 2011, an evaluation was performed, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of June 30, 2011, were effective in ensuring that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods required by the SEC s rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting for the quarter ended June 30, 2011, that have materially affected, or are reasonably likely to materially affect, such control.

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Limitations on Controls and Procedures

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, any system of disclosure controls and procedures or internal control over financial reporting may not be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

PART II.
OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes in legal proceedings as described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 1A. Risk Factors

There have been no material changes in risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Sales of Equity Securities and Use of Proceeds

(a) There were no unregistered sales of equity securities during the six months ended June 30, 2011.

(b) Not applicable.

(c) The following table provides information with respect to purchases made by or on behalf of us or any affiliated purchasers (as defined in Rule 10b-18(a)(3) under the Exchange Act), of our common stock during the three months ended June 30, 2011.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicy Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 2011		$	0	Not Applicable
May 2011	1,079	13.25	0	Not Applicable
June 2011			0	Not Applicable
Total	1,079	$ 13.25	0	Not Applicable

(1) Represents shares purchased by the Company in satisfaction of minimum required income tax withholding requirements pursuant to the vesting of restricted stock.

Item 3. Defaults upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

Not applicable or required.

Item 6. Exhibits

2.1 Stock Purchase Agreement dated as of September 18, 2007, by and between First Interstate BancSystem, Inc. and First Western Bancorp, Inc. (incorporated herein by reference to Exhibit 2.1 of the Company s Current Report on Form 8-K filed on September 19, 2007)

2.2 First Amendment to Stock Purchase Agreement dated as of January 10, 2008, between First Interstate BancSystem, Inc. and Christen Group, Inc. formerly known as First Western Bancorp, Inc. (incorporated herein by reference to Exhibit 10.20 of the Company s Current Report on Form 8-K filed on January 16, 2008)

3.1 Amended and Restated Articles of Incorporation dated March 5, 2010 (incorporated herein by reference to Exhibit 3.1 of the Company s Current Report on Form 8-K/A filed on March 10, 2010)

3.2 Second Amended and Restated Bylaws dated January 27, 2011 (incorporated herein by reference to Exhibit 3.1 of the Company s Current Report on Form 8-K/A filed on February 3, 2011)

4.1 Specimen of Series A preferred stock certificate of First Interstate BancSystem, Inc. (incorporated herein by reference to Exhibit 4.2 of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007)

10.1 Credit Agreement Re: Subordinated Term Note dated as of January 10, 2008, between First Interstate BancSystem, Inc. and First Midwest Bank (incorporated herein by reference to Exhibit 10.24 of the Company s Current Report on Form 8-K filed on January 16, 2008)

10.2 Lease Agreement between Billings 401 Joint Venture and First Interstate Bank Montana dated September 20, 1985 and addendum thereto (incorporated herein by reference to Exhibit 10.4 of the Company s Post-Effective Amendment No. 3 to Registration Statement on Form S-1, No. 033-84540, filed on September 29, 1994)

10.3 First Interstate BancSystem s Deferred Compensation Plan dated December 1, 2006 (incorporated herein by reference to Exhibit 10.9 of the Company s Pre-Effective Amendment No. 3 to Registration Statement on Form S-1, No. 333-164380, filed on March 23, 2010)

10.4 First Amendment to the First Interstate BancSystem s Deferred Compensation Plan dated October 24, 2008 (incorporated herein by reference to Exhibit 10.10 of the Company s Pre-Effective Amendment No. 3 to Registration Statement on Form S-1, No. 333-164380, filed on March 23, 2010)

10.5 2001 Stock Option Plan (incorporated herein by reference to Exhibit 4.12 of the Company s Registration Statement on Form S-8, No. 333-106495, filed on June 25, 2003)

10.6 Second Amendment to 2001 Stock Option Plan (incorporated herein by reference to Exhibit 10.6 of the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010)

10.7 First Interstate BancSystem, Inc. 2006 Equity Compensation Plan (incorporated herein by reference to Appendix A of the Company s 2006 Definitive Proxy Statement of Schedule 14A)

10.8 Amendment to First Interstate BancSystem, Inc. 2006 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed on March 22, 2010)

10.9 Second Amendment to First Interstate BancSystem, Inc. 2006 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.9 of the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010)

10.10 Form of First Interstate BancSystem, Inc. 2006 Equity Compensation Plan Restricted Stock Agreement (Time) for Certain Executive Officers (incorporated herein by reference to Exhibit 10.13 of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008)

10.11 Form of First Interstate BancSystem, Inc. 2006 Equity Compensation Plan Restricted Stock Agreement (Performance) for Certain Executive Officers (incorporated herein by reference to Exhibit 10.14 of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008)

10.12

Trademark License Agreements between Wells Fargo & Company and First Interstate BancSystem, Inc. (incorporated herein by reference to Exhibit 10.11 of the Company s Registration Statement on Form S-1, No. 333-25633 filed on April 22, 1997)

31.1* Certification of Quarterly Report on Form 10-Q pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer

31.2* Certification of Quarterly Report on Form 10-Q pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer

32* Certification of Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101** Interactive data file

Management contract or compensatory arrangement.

* Filed herewith.

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

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SIGNATURES

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

	FIRST INTERSTATE BANCSYSTEM, INC.
Date August 5, 2011	/s/ LYLE R. KNIGHT Lyle R. Knight President and Chief Executive Officer
Date August 5, 2011	/s/ TERRILL R. MOORE Terrill R. Moore Executive Vice President and Chief Financial Officer