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

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

FORM 10-Q

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

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

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

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

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

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

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

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

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

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

September 30, 2018 – Class A common stock	38,107,555
September 30, 2018 – Class B common stock	22,501,994

Quarterly Report on Form 10-Q

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Index
September 30, 2018

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

	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 229.8	$ 196.5
Interest bearing deposits in banks	686.8	562.3
Federal funds sold	48.4	0.1
Total cash and cash equivalents	965.0	758.9
Investment securities:		
Available-for-sale	2,158.8	2,208.7
Held-to-maturity (estimated fair values of $407.4 and $483.3 at September 30, 2018 and December 31, 2017, respectively)	417.8	484.5
Total investment securities	2,576.6	2,693.2
Loans held for investment	8,480.3	7,567.7
Mortgage loans held for sale	37.7	46.6
Total loans	8,518.0	7,614.3
Less allowance for loan losses	73.6	72.1
Net loans	8,444.4	7,542.2
Goodwill	546.4	444.7
Company-owned life insurance	273.7	260.6
Premises and equipment, net of accumulated depreciation	244.2	241.9
Accrued interest receivable	48.0	38.0
Mortgage servicing rights, net of accumulated amortization and impairment reserve	27.0	24.8
Core deposit intangibles, net of accumulated amortization	59.3	49.1
Other real estate owned (“OREO”)	17.3	10.1
Deferred tax asset, net	—	4.0
Other assets	153.9	145.8
Total assets	$ 13,355.8	$ 12,213.3
Liabilities and Stockholders’ Equity		
Deposits:		
Non-interest bearing	$ 3,261.2	$ 2,900.0
Interest bearing	7,584.4	7,034.9
Total deposits	10,845.6	9,934.9
Securities sold under repurchase agreements	635.9	643.0
Accounts payable and accrued expenses	99.4	86.6
Accrued interest payable	6.7	5.6
Deferred tax liability, net	3.0	—
Long-term debt	22.4	13.1
Other borrowed funds	1.5	20.0
Subordinated debentures held by subsidiary trusts	86.9	82.5
Total liabilities	11,701.4	10,785.7
Stockholders’ equity:		

Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued and outstanding as of September 30, 2018 or December 31, 2017	—	—
Common stock	865.5	687.0
Retained earnings	828.3	752.6
Accumulated other comprehensive loss, net	(39.4)	(12.0)
Total stockholders’ equity	1,654.4	1,427.6
Total liabilities and stockholders’ equity	$ 13,355.8	$ 12,213.3

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Interest and fees on loans	$103.9	$ 94.0	$292.1	$ 231.6
Interest and dividends on investment securities:				
Taxable	13.9	11.7	41.0	30.2
Exempt from federal taxes	0.6	0.8	1.8	2.5
Interest on deposits in banks	2.8	2.3	6.9	4.8
Total interest income	121.2	108.8	341.8	269.1
Interest expense:				
Interest on deposits	8.9	6.2	22.3	15.3
Interest on securities sold under repurchase agreements	0.7	0.4	1.8	0.9
Interest on other borrowed funds	0.1	0.4	0.2	0.4
Interest on other debt	0.4	0.2	0.9	1.2
Interest on subordinated debentures held by subsidiary trusts	1.1	0.8	3.0	2.3
Total interest expense	11.2	8.0	28.2	20.1
Net interest income	110.0	100.8	313.6	249.0
Provision for loan losses	2.0	3.4	7.0	7.5
Net interest income after provision for loan losses	108.0	97.4	306.6	241.5
Non-interest income:				
Payment services revenues	10.1	12.4	33.5	31.0
Mortgage banking revenues	6.7	8.2	19.3	22.5
Wealth management revenues	5.8	5.5	17.5	15.6
Service charges on deposit accounts	5.7	5.9	16.6	15.3
Other service charges, commissions and fees	3.4	3.6	11.1	9.6
Loss on termination of interest rate swap	—	(1.1)	—	(1.1)
Investment securities gains (losses), net	—	0.8	—	0.8
Other income	4.5	3.0	11.0	10.9
Total non-interest income	36.2	38.3	109.0	104.6
Non-interest expense:				
Salaries and wages	36.8	34.7	105.7	88.4
Employee benefits	11.9	10.2	35.5	29.6
Outsourced technology services	6.8	6.6	20.9	17.9
Occupancy, net	6.5	6.1	18.8	16.0
Furniture and equipment	3.5	3.1	9.5	8.2
OREO expense, net of income	0.2	0.2	0.3	0.2
Professional fees	1.9	1.9	5.2	4.7
FDIC insurance premiums	1.4	1.7	4.3	3.4
Mortgage servicing rights amortization	0.8	0.8	2.3	2.1
Mortgage servicing rights recovery	—	—	—	(0.1)
Core deposit intangibles amortization	2.0	1.9	5.5	3.6
Other expenses	15.8	14.5	48.1	40.9

Acquisition related expenses	3.1	13.0	5.4	23.9
Total non-interest expense	90.7	94.7	261.5	238.8
Income before income tax expense	53.5	41.0	154.1	107.3
Income tax expense	12.1	13.7	34.3	35.0
Net income	$41.4	$ 27.3	$119.8	$ 72.3
Earnings per common share (Basic)	$0.71	$ 0.49	$2.10	$ 1.46
Earnings per common share (Diluted)	$0.71	$ 0.48	$2.09	$ 1.45
Weighted average common shares outstanding (Basic)	58,254,576	56,094,401	56,951,029	49,514,818
Weighted average common shares outstanding (Diluted)	58,640,476	56,530,868	57,330,027	50,000,882

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$41.4	$27.3	$119.8	$72.3
Other comprehensive income, before tax:				
Investment securities available-for sale:				
Change in net unrealized (losses) gains during period	(6.3)	(1.8)	(33.9)	15.6
Reclassification adjustment for net (gains) losses included in income	—	(0.8)	—	(0.8)
Change in unamortized loss on available-for-sale securities transferred into held-to-maturity	0.5	0.5	1.5	1.4
Unrealized loss (gain) on derivatives	—	(0.6)	—	(1.1)
Reclassification adjustment for derivatives net (gains) losses included in income	—	1.1	—	1.1
Defined benefit post-retirement benefits plans:				
Change in net actuarial gain	(0.2)	(0.2)	(0.5)	(1.1)
Other comprehensive income (loss), before tax	(6.0)	(1.8)	(32.9)	15.1
Deferred tax benefit (expense) related to other comprehensive income	1.6	0.8	8.6	(6.0)
Other comprehensive (loss) income, net of tax	(4.4)	(1.0)	(24.3)	9.1
Comprehensive income, net of tax	$37.0	$26.3	$95.5	$81.4

See accompanying notes to unaudited consolidated financial statements.

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

	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders’ equity
Balance at December 31, 2017	$ 687.0	$ 752.6	$ (12.0)	$ 1,427.6
Net income	—	119.8	—	119.8
Reclassification of the income tax effects of the Tax Cut and Jobs Act from AOCI	—	3.1	(3.1)	—
Other comprehensive income, net of tax expense	—	—	(24.3)	(24.3)
Common stock transactions:				
23,960 common shares purchased and retired	(1.0)	—	—	(1.0)
3,848,929 common shares issued	173.3	—	—	173.3
210,039 non-vested common shares issued	—	—	—	—
40,122 non-vested common shares forfeited	—	—	—	—
148,834 stock options exercised, net of 28,194 shares tendered in payment of option price and income tax withholding amounts	1.9	—	—	1.9
Stock-based compensation expense	4.3	—	—	4.3
Common cash dividends declared (0.84 per share)	—	(47.2)	—	(47.2)
Balance at September 30, 2018	$ 865.5	$ 828.3	$ (39.4)	$ 1,654.4
Balance at December 31, 2016	$ 296.1	$ 694.6	$ (8.1)	$ 982.6
Net income	—	72.3	—	72.3
Other comprehensive income, net of tax expense	—	—	9.1	9.1
Common stock transactions:				
22,727 common shares purchased and retired	(0.9)	—	—	(0.9)
11,267,676 common shares issued	385.9	—	—	385.9
134,044 non-vested common shares issued	—	—	—	—
30,070 non-vested common shares forfeited	—	—	—	—
180,789 stock options exercised, net of 56,082 shares tendered in payment of option price and income tax withholding amounts	2.0	—	—	2.0
Stock-based compensation expense	3.4	—	—	3.4
Common cash dividends declared (0.72 per share)	—	(35.0)	—	(35.0)
Balance at September 30, 2017	$ 686.5	$ 731.9	$ 1.0	$ 1,419.4

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$119.8	$72.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	7.0	7.5
Depreciation and amortization	19.9	17.9
Net premium amortization on investment securities	7.9	8.6
Net gain on investment securities transactions	—	(0.8)
Realized and unrealized net gains on mortgage banking activities	(4.2)	(15.3)
Net gain on sale of OREO	(0.4)	(0.4)
Write-downs of OREO and other assets pending disposal	0.1	0.3
Net (gain) on sale of Health Savings Accounts	—	(3.1)
Mortgage servicing rights recovery	—	(0.1)
Deferred tax expenses	13.2	19.8
Net increase in cash surrender value of company-owned life insurance	(3.6)	(3.8)
Stock-based compensation expense	4.3	3.4
Originations of mortgage loans held for sale	(738.3)	(719.2)
Proceeds from sales of mortgage loans held for sale	747.1	731.1
Changes in operating assets and liabilities, net of effects of acquisition:		
Increase in interest receivable	(6.4)	(3.2)
(Increase) decrease in other assets	(0.7)	(4.8)
Increase in accrued interest payable	0.9	0.2
Decrease in accounts payable and accrued expenses	5.3	(15.7)
Net cash provided by operating activities	171.9	94.7
Cash flows from investing activities:		
Purchases of investment securities:		
Held-to-maturity	(0.3)	(12.8)
Available-for-sale	(320.6)	(386.5)
Proceeds from maturities and pay-downs of investment securities:		
Held-to-maturity	66.9	76.0
Available-for-sale	333.3	319.9
Extensions of credit to customers, net of repayments	(225.5)	(20.9)
Recoveries of loans charged-off	9.6	6.5
Proceeds from sale of OREO	4.3	4.1
Acquisition of intangible assets	—	(28.0)
Proceeds from the sale of Health Savings Accounts	—	6.1
Acquisition of bank and bank holding company, net of cash and cash equivalents received	28.2	91.8
Capital expenditures, net of sales	(0.5)	(12.2)
Net cash provided by (used in) investing activities	$(104.6)	$44.0

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from financing activities:		
Net increase (decrease) in deposits	$214.4	$(111.6)
Net (decrease) increase in securities sold under repurchase agreements	(7.1)	97.7
Net decrease in other borrowed funds	(24.5)	10.0
Repayments of long-term debt	(0.4)	(0.1)
Advances on long-term debt	2.7	—
Proceeds from issuance of common stock	1.9	2.0
Purchase and retirement of common stock	(1.0)	(0.9)
Dividends paid to common stockholders	(47.2)	(35.0)
Net cash provided by (used in) financing activities	138.8	(37.9)
Net increases (decrease) in cash and cash equivalents	206.1	100.8
Cash and cash equivalents at beginning of period	758.9	782.0
Cash and cash equivalents at end of period	$965.0	$882.8
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$15.8	$24.3
Cash paid during the period for interest expense	27.1	19.9
Supplemental disclosures of noncash investing and financing activities:		
Transfer of loans to loans held for sale	$1.4	$6.3
Transfer of loans to other real estate owned	10.7	3.2
Capitalization of internally originated mortgage servicing rights	4.5	4.1
Supplemental schedule of noncash investing activities from acquisitions:		
Investment securities available for sale	$3.1	$424.3
Investment securities held to maturity	—	57.3
Loans held for sale	—	10.2
Loans	713.1	2,080.4
Premises and equipment	14.0	46.7
Goodwill	100.8	232.2
Core deposit intangible	15.7	48.0
Mortgage servicing rights	—	3.5
Interest receivable	3.6	57.0
Company-owned life insurance	9.5	26.0
Deferred tax assets	—	7.6
Other real estate owned	0.6	1.2
Other assets	6.5	31.6
Total noncash assets acquired	866.9	3,026.0
Liabilities assumed:		

Deposits	$696.3	$2,669.0
Accounts payable and accrued expenses	7.7	62.9
Long-term debt	7.0	—
Other borrowed funds	6.0	—
Trust preferred securities	4.4	—
Deferred tax liability	0.4	—
Total liabilities assumed	721.8	2,731.9

See accompanying notes to unaudited consolidated financial statements.

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements of First Interstate BancSystem, Inc., First Interstate Bank (“FIB”), Inland Northwest Bank (“INB’), and its other subsidiaries (together, the “Company”) contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the financial position of the Company at September 30, 2018 and December 31, 2017, the results of operations for each of the three and nine month periods ended September 30, 2018 and 2017, and cash flows and changes in stockholders’ equity for each of the nine month periods ended September 30, 2018 and 2017, in conformity with U.S. generally accepted accounting principles (“GAAP”). The balance sheet information at December 31, 2017 is derived from audited consolidated financial statements. Certain reclassifications, none of which were material, have been made to conform prior year financial statements to the September 30, 2018 presentation. These reclassifications did not change previously reported net income or stockholders’ equity.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Revenue Recognition

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

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

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

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

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

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

(2) Acquisitions

Idaho Independent Bank. On October 11, 2018, the Company entered into a definitive agreement to acquire all of the outstanding stock of Idaho Independent Bank ("IIBK"), a community bank headquartered in Coeur d' Alene, Idaho with 11 banking offices across Idaho, in an all-stock transaction valued at approximately $181.3 million in aggregate, or $22.73 per share of IIBK stock. The Company believes the transaction, if completed on the terms contemplated, will complement the Company's footprint and will provide the Company with an expanded presence in several high-growth markets, including Boise and Coeur d’Alene, Idaho. The transaction has been approved by the boards of directors of both companies and is expected to close and convert data processing systems in the second quarter of 2019, subject to customary conditions, including regulatory approval and IIBK shareholder approval.

Community 1st Bank. On October 11, 2018, the Company also entered into a definitive agreement to acquire all of the outstanding stock of Community 1st Bank ("CMYF"), a community bank headquartered in Post Falls, Idaho with three banking offices in North Idaho, in an all-stock transaction valued at approximately$21.5 million in aggregate, or $17.20 per share of CMYF stock. The Company believes the transaction, if completed on the terms contemplated, will complement the Company’s footprint and will provide the Company with an expanded presence in North Idaho's high-growth markets. The transaction has been approved by the boards of directors of both companies and is expected to close and convert data processing systems in the second quarter of 2019, subject to customary conditions, including regulatory approval and CMYF shareholder approval.

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

Consideration for the acquisition was $176.3 million, consisting of the issuance of 3.84 million shares of the Company's Class A common stock valued at $45.15 per share, the closing price of the Company's Class A common stock as quoted on the NASDAQ stock exchange on the acquisition date. The Company paid approximately $3.0

million in cash related to Northwest warrants, which were included in the consideration paid. Holders of each share of Northwest common stock received 0.516 shares of First Interstate Class A common stock for each share of Northwest common stock. Additionally, all Northwest stock purchase warrants outstanding immediately prior to the close of the transaction were canceled in exchange for the right to receive a cash payment as provided in the Agreement. Previously unvested Northwest restricted stock awards outstanding immediately prior to the close of the transaction vested and were considered issued and outstanding at acquisition close.

The assets and liabilities of Northwest were provisionally recorded in the Company’s consolidated financial statements at their estimated fair values as of the acquisition date and will be finalized in the coming months. The excess value of the consideration paid over the fair value of assets acquired and liabilities assumed is recorded as provisional goodwill. The preliminary purchase price allocation resulted in provisional goodwill of $100.8 million, which is not deductible for income tax purposes. Goodwill resulting from the acquisition was allocated to the Company’s one operating segment, community banking, and consists largely of the synergies and economies of scale expected from combining the operations of Northwest and the Company.

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

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

As of August 16, 2018	As Recorded by Northwest	Fair Value Adjustments		As Recorded by the Company
Assets acquired:				
Cash and cash equivalents	$ 31.2	$ —		$ 31.2
Investment securities	3.1	—		3.1
Loans held for investment	727.9	(14.8)	(1)	713.1
Allowance for loan loss	(8.0)	8.0	(2)	—
Premises and equipment	14.5	(0.5)	(3)	14.0
Other real estate owned (“OREO”)	0.3	0.3		0.6
Core deposit intangible assets	2.4	13.3	(4)	15.7
Deferred tax assets, net	1.2	(1.6)	(5)	(0.4)
Other assets	29.3	(9.7)	(6)	19.6
Total assets acquired	801.9	(5.0)		796.9
Liabilities assumed:				
Deposits	696.1	0.2	(7)	696.3
Accounts payable and accrued expense	8.1	(0.4)	(8)	7.7
Long term debt	13.0	—		13.0
Trust preferred securities	5.2	(0.8)	(9)	4.4
Total liabilities assumed	722.4	(1.0)		721.4
Net assets acquired	$ 79.5	$ (4.0)		$ 75.5
Consideration paid:				
Cash				$ 3.0
Class A common stock				173.3
Total consideration paid				176.3
Goodwill				$ 100.8

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

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

Company's analysis of the fair value of each loan's underlying collateral, discounted using market-derived rates of return with consideration given to the period of time and costs associated with foreclosure and disposition of the collateral.

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

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

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

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

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

(6) Adjustment consists of reductions to the fair value of other items, including the removal of Northwest previously recorded goodwill.
(7) Increase in book value of time deposits to their estimated fair values based upon interest rates of similar time deposits with similar terms on the date of acquisition based upon valuation from an independent accounting and advisory firm.
(8) Decrease due to the write-off of off balance sheet reserves.
(9) Write down of the book value of debt to the estimated fair values on the date of acquisition based upon favorable interest rates in the market.

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

The Company acquired certain loans that are subject to Accounting Standards Codification ("ASC") Topic 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality." ASC Topic 310-30 provides recognition, measurement and disclosure guidance for acquired loans that have evidence of deterioration in credit quality since origination for which it is probable, at acquisition, the Company will be unable to collect all contractual amounts owed. For loans that meet the criteria stipulated in ASC Topic 310-30, the excess of all cash flows expected at acquisition over the initial fair value of the loans acquired ("accretable yield") is amortized to interest income over the expected remaining lives of the underlying loans using the effective interest method. The accretable yield will fluctuate due to changes in (i) estimated lives of underling credit-impaired loans, (ii) assumptions regarding future principal and interest amounts collected, and (iii) indices used to fair value variable rate loans.
Information regarding Northwest loans acquired deemed credit-impaired as of the August 16, 2018 acquisition date are as follows:

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

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

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

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

The accompanying consolidated statements of income for the three and nine months ended September 30, 2018, include the results of operations of the acquired entity from the August 16, 2018 acquisition date. For the period from August 16, 2018 to September 30, 2018, Northwest reported revenues of $5.9 million and net income of $2.1 million. The acquired entity will continued to operate as INB until November 9, 2018 at which point INB’s operations will be integrated with the Company’s operations, and INB will merge with FIB.

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

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

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

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

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

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

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

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