FIRST INTERSTATE BANCSYSTEM INC
Form 10-Q
November 09, 2015

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, 2015
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 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, 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	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller reporting company	¨

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:

September 30, 2015 – Class A common stock	21,583,324
September 30, 2015 – Class B common stock	23,761,683

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

	September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$139,879	$147,894
Federal funds sold	2,263	543
Interest bearing deposits in banks	566,153	650,233
Total cash and cash equivalents	708,295	798,670
Investment securities:		
Available-for-sale	1,545,093	1,711,924
Held-to-maturity (estimated fair values of $534,633 and $584,533 at September 30, 2015 and December 31, 2014, respectively)	522,543	575,186
Total investment securities	2,067,636	2,287,110
Loans held for investment	5,120,794	4,856,615
Mortgage loans held for sale	55,686	40,828
Total loans	5,176,480	4,897,443
Less allowance for loan losses	74,256	74,200
Net loans	5,102,224	4,823,243
Goodwill	204,409	205,574
Premises and equipment, net of accumulated depreciation	190,386	195,212
Company-owned life insurance	185,990	153,821
Other real estate owned (“OREO”)	8,031	13,554
Accrued interest receivable	31,590	27,063
Core deposit intangibles, net of accumulated amortization	11,425	13,282
Mortgage servicing rights, net of accumulated amortization and impairment reserve	15,336	14,038
Deferred tax asset, net	—	4,874
Other assets	79,208	73,495
Total assets	$8,604,530	$8,609,936
Liabilities and Stockholders’ Equity		
Deposits:		
Non-interest bearing	$1,832,535	$1,791,364
Interest bearing	5,203,259	5,214,848
Total deposits	7,035,794	7,006,212
Securities sold under repurchase agreements	437,533	502,250
Accounts payable and accrued expenses	48,698	66,164
Accrued interest payable	5,327	5,833
Deferred tax liability	13,027	—
Long-term debt	43,089	38,067
Other borrowed funds	10	9
Subordinated debentures held by subsidiary trusts	82,477	82,477
Total liabilities	7,665,955	7,701,012
Stockholders’ equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued and outstanding as of September 30, 2015 or December 31,	—	—

2014		
Common stock	309,167	323,596
Retained earnings	623,967	587,862
Accumulated other comprehensive income (loss), net	5,441	(2,534)
Total stockholders' equity	938,575	908,924
Total liabilities and stockholders' equity	$8,604,530	$8,609,936

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Interest and fees on loans	$62,062	$61,007	$181,835	$170,290
Interest and dividends on investment securities:				
Taxable	7,410	7,259	23,381	22,208
Exempt from federal taxes	962	1,085	3,061	3,265
Interest on deposits in banks	342	374	1,002	830
Interest on federal funds sold	4	3	11	7
Total interest income	70,780	69,728	209,290	196,600
Interest expense:				
Interest on deposits	3,241	3,487	9,789	10,238
Interest on securities sold under repurchase agreements	55	52	162	181
Interest on other borrowed funds	—	27	—	27
Interest on long-term debt	544	482	1,596	1,431
Interest on subordinated debentures held by subsidiary trusts	610	598	1,800	1,778
Total interest expense	4,450	4,646	13,347	13,655
Net interest income	66,330	65,082	195,943	182,945
Provision for loan losses	1,098	261	3,533	(6,740)
Net interest income after provision for loan losses	65,232	64,821	192,410	189,685
Non-interest income:				
Other service charges, commissions and fees	11,095	10,458	32,135	29,313
Income from the origination and sale of loans	7,983	7,346	22,691	18,386
Wealth management revenues	5,233	5,157	15,067	14,221
Service charges on deposit accounts	4,379	4,331	12,376	12,135
Investment securities gains (losses), net	23	(8)	75	80
Other income	1,769	2,079	7,690	5,905
Total non-interest income	30,482	29,363	90,034	80,040
Non-interest expense:				
Salaries and wages	25,460	25,914	76,902	72,796
Employee benefits	7,312	7,841	23,162	23,318
Occupancy, net	4,413	4,534	13,434	13,026
Furniture and equipment	3,849	3,338	11,345	9,696
Outsourced technology services	2,520	2,346	7,576	6,955
OREO expense, net of income	(720)	(58)	(1,604)	(211)
Professional fees	1,916	1,233	4,731	3,881
FDIC insurance premiums	1,190	1,172	3,636	3,381
Mortgage servicing rights amortization	617	591	1,863	1,774
Mortgage servicing rights impairment recovery	(76)	(61)	(147)	(117)
Core deposit intangibles amortization	842	688	2,551	1,396
Other expenses	12,613	12,368	37,994	33,672

Loss contingency expenses	5,000	4,000	5,000	4,000
Acquisition expenses	566	1,052	629	1,649
Total non-interest expense	65,502	64,958	187,072	175,216
Income before income tax expense	30,212	29,226	95,372	94,509
Income tax expense	10,050	10,071	32,008	32,884
Net income	$20,162	$19,155	$63,364	$61,625
Basic earnings per common share	$0.45	$0.43	$1.40	$1.39
Diluted earnings per common share	$0.44	$0.42	$1.39	$1.37

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$20,162	$19,155	$63,364	$61,625
Other comprehensive income, before tax:				
Investment securities available-for sale:				
Change in net unrealized gains (losses) during period	10,855	(3,773)	12,264	12,942
Reclassification adjustment for net (gains) losses included in income	(23)	8	(75)	(80)
Change in unamortized loss on available-for-sale securities transferred into held-to-maturity	448	451	1,353	902
Unrealized loss on derivatives	(436)	—	(436)	—
Defined benefit post-retirement benefits plans:				
Change in net actuarial loss	15	33	43	103
Other comprehensive income (loss), before tax	10,859	(3,281)	13,149	13,867
Deferred tax benefit (expense) related to other comprehensive income	(4,273)	1,291	(5,174)	(5,456)
Other comprehensive income (loss), net of tax	6,586	(1,990)	7,975	8,411
Comprehensive income, net of tax	$26,748	$17,165	$71,339	$70,036

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 thousands, except share and per share data)
(Unaudited)

	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2014	$323,596	$587,862	$(2,534)	$908,924
Net income	—	63,364	—	63,364
Other comprehensive income, net of tax expense	—	—	7,975	7,975
Common stock transactions:				
789,743 common shares purchased and retired	(20,548)	—	—	(20,548)
21,414 common shares issued	—	—	—	—
169,577 non-vested common shares issued	—	—	—	—
3,484 non-vested common shares forfeited	—	—	—	—
158,828 stock options exercised, net of 58,996 shares tendered in payment of option price and income tax withholding amounts	1,909	—	—	1,909
Tax benefit of stock-based compensation	979	—	—	979
Stock-based compensation expense	3,231	—	—	3,231
Common cash dividend declared ($0.60 per share)	—	(27,259)	—	(27,259)
Balance at September 30, 2015	$309,167	$623,967	$5,441	$938,575
Balance at December 31, 2013	$285,535	$532,087	$(16,041)	$801,581
Net income	—	61,625	—	61,625
Other comprehensive income, net of tax expense	—	—	8,411	8,411
Common stock transactions:				
387,967 common shares purchased and retired	(9,736)	—	—	(9,736)
1,402,811 common shares issued	35,972	—	—	35,972
147,876 non-vested common shares issued	—	—	—	—
17,741 non-vested common shares forfeited	—	—	—	—
372,880 stock options exercised, net of 166,780 shares tendered in payment of option price and income tax withholding amounts	4,914	—	—	4,914
Tax benefit of stock-based compensation	1,541	—	—	1,541
Stock-based compensation expense	2,906	—	—	2,906
Common cash dividend declared ($0.48 per share)	—	(21,350)	—	(21,350)
Balance at September 30, 2014	$321,132	$572,362	$(7,630)	$885,864

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)

	Nine Months Ended September 30,			
	2015		2014	
Cash flows from operating activities:				
Net income	$63,364		$61,625	
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses	3,533		(6,740	)
Net gain on disposal of premises and equipment	(822	)	(68	)
Depreciation and amortization	13,702		12,168	
Net premium amortization on investment securities	11,527		10,784	
Net gain on investment securities transactions	(75	)	(80	)
Net gain on sale of mortgage loans held for sale	(16,397	)	(12,947	)
Net gain on sale of OREO	(2,862	)	(551	)
Write-downs of OREO and other assets pending disposal	985		87	
Net reversal of impairment of mortgage servicing rights	(147	)	(117	)
Deferred income tax expense	12,975		8,537	
Net increase in cash surrender value of company-owned life insurance	(9,669	)	(2,540	)
Stock-based compensation expense	3,231		2,906	
Tax benefits from stock-based compensation expense	979		1,541	
Excess tax benefits from stock-based compensation expense	(884	)	(1,503	)
Originations of mortgage loans held for sale	(856,384	)	(682,011	)
Proceeds from sales of mortgage loans held for sale	865,833		676,061	
Changes in operating assets and liabilities:				
Increase in interest receivable	(3,962	)	(2,749	)
Increase in other assets	(4,766	)	(1,585	)
Increase (decrease) in accrued interest payable	(639	)	22	
Increase (decrease) in accounts payable and accrued expenses	(17,583	)	1,321	
Net cash provided by operating activities	61,939		64,161	
Cash flows from investing activities:				
Purchases of investment securities:				
Held-to-maturity	(28,745	)	(10,431	)
Available-for-sale	(253,049	)	(322,838	)
Proceeds from maturities, pay-downs and sales of investment securities:				
Held-to-maturity	80,759		29,432	
Available-for-sale	450,462		398,383	
Purchases of company-owned life insurance	(22,500	)	(15,000	)
Proceeds from sales of mortgage servicing rights	—		266	
Extensions of credit to customers, net of repayments	(251,450	)	(148,854	)
Recoveries of loans charged-off	4,439		7,323	
Proceeds from sales of OREO	13,586		5,877	
Acquisition of bank and bank holding company, net of cash and cash equivalents received	(1,636	)	35,556	
Capital expenditures, net of sales	(2,236	)	(6,599	)
Net cash used in investing activities	$(10,370	)	$(26,885	)

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

	Nine Months Ended September 30, 2015	2014
Cash flows from financing activities:		
Net increase (decrease) in deposits	$(33,983)	$310,370
Net decrease in securities sold under repurchase agreements	(66,717)	(25,880)
Net increase (decrease) in other borrowed funds	1	(11,926)
Repayments of long-term debt	(1,297)	(35)
Advances on long-term debt	5,066	—
Proceeds from issuance of common stock	1,909	4,914
Excess tax benefits from stock-based compensation expense	884	1,503
Purchase and retirement of common stock	(20,548)	(9,736)
Dividends paid to common stockholders	(27,259)	(21,350)
Net cash provided by (used in) financing activities	(141,944)	247,860
Net increase (decrease) in cash and cash equivalents	(90,375)	285,136
Cash and cash equivalents at beginning of period	798,670	534,827
Cash and cash equivalents at end of period	$708,295	$819,963
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$27,335	$21,100
Cash paid during the period for interest expense	13,853	13,049

See accompanying notes to unaudited consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in 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 September 30, 2015 and December 31, 2014, and the results of operations for each of the three and nine month periods ended and cash flows for each of the nine month periods ended September 30, 2015 and 2014 in conformity with U.S. generally accepted accounting principles. The balance sheet information at December 31, 2014 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, 2015 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, 2014. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

(2) Acquisitions

Absarokee Bancorporation, Inc.   On March 26, 2015, the Company entered into an agreement and plan of merger to acquire all of the outstanding stock of Absarokee Bancorporation, Inc. ("Absarokee"), a Montana-based bank holding company that operated one subsidiary bank, United Bank, with branches located in three Montana communities adjacent to the Company's existing market areas. The acquisition was completed on July 24, 2015 for cash consideration of $7,234. Immediately subsequent to the acquisition, United Bank was merged with and into the Company's existing bank subsidiary, First Interstate Bank ("FIB"). As of the date of the acquisition, Absarokee had total assets of $73,460, loans of $37,520 and deposits of $63,565.

The assets and liabilities of Absarokee 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 following table summarizes the consideration paid, fair values of the Absarokee assets acquired and liabilities assumed and the resulting goodwill. All amounts reported are provisional pending completion of management review.

As of July 24, 2015	As Recorded by Absarokee	Fair Value Adjustments		As Recorded by the Company
Assets acquired:				
Cash and cash equivalents	$5,598	$—		$5,598
Investment securities	27,574	—		27,574
Loans	37,520	(876)	(1)	36,644
Allowance for loan losses	(899)	899	(2)	—
Premises and equipment	2,851	277	(3)	3,128
Core deposit intangible assets	—	695	(4)	695
Other assets	816	82	(5)	898

Total assets acquired	73,460	1,077		74,537
Liabilities assumed:				
Deposits	63,565	—		63,565
Repurchase agreements	2,000	—		2,000
Long term debt	1,222	31	(6)	1,253
Other liabilities	79	440	(7)	519
Total liabilities assumed	66,866	471		67,337
Net assets acquired	$6,594	$606		7,200
Cash consideration paid				7,234
Goodwill				$34

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

Explanation of fair value adjustments:

(1) Write down of the book value of loans to their estimated fair values. The fair value of 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.

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

(3) Write up of the book value of premises and equipment to their estimated fair values based upon fair value estimates developed internally based upon comparable in-market transactions.

(4) Adjustment represents the value of the core deposit base assumed in the acquisition based upon an internal valuation based on analysis of recent acquisitions.

(5) Adjustment consists of a reduction in the value of accrued interest receivable, the write-off of pre-existing goodwill and recording the value of mortgage servicing assets acquired.

(6) Adjustment represents increase in the book value of a Federal Home Loan Bank borrowing to its estimated fair market value based upon interest interest rates of similar advances with similar characteristics on the date of acquisition.

(7) Adjustment represents the net deferred tax liability resulting from fair value adjustments related to acquired assets, assumed liabilities, core deposit intangible assets and other purchase accounting adjustments.

The core deposit intangible asset of $695 is being amortized using an accelerated method over the estimated useful lives of the related deposits of ten years.

Mountain West Financial Corp. On July 31, 2014, the Company acquired all of the outstanding stock of Mountain West Financial Corp ("MWFC"), a Montana-based bank holding company operating one subsidiary bank, Mountain West Bank, NA ("MWB"). MWB was merged with and into FIB in October 2014. During March 2015, the Company completed its review of MWFC tax items and finalized the fair value of acquired deferred tax assets. Finalization of provisional estimates resulted in a $1,199 decrease in goodwill.

The Company recorded third party acquisition-related costs of $566 and $1,052 during the three months ended September 30, 2015 and 2014, respectively. The Company recorded third party acquisition-related costs of $629 and $1,649 during the nine months ended September 30, 2015 and 2014, respectively. These costs are included in acquisition expenses in the Company's consolidated statements of income.

(3) Investment Securities

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

September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
U.S. Treasury notes	$3,913	$28	$—	$3,941
Obligations of U.S. government agencies	604,198	2,196	(350)	606,044
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	917,025	15,314	(1,284)	931,055

Private mortgage-backed securities	257	3	(2)	258
Other investments	3,795	—	—	3,795
Total	$1,529,188	$17,541	$(1,636)	$1,545,093

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

September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity:				
State, county and municipal securities	$176,569	$5,471	$(200)	$181,840
Corporate securities	50,178	186	(49)	50,315
U.S agency residential mortgage-backed securities & collateralized mortgage obligations	295,418	10,346	(3,665)	302,099
Other investments	378	1	—	379
Total	$522,543	$16,004	$(3,914)	$534,633

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
Obligations of U.S. government agencies	$725,408	$895	$(5,370)	$720,933
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	982,764	11,526	(3,624)	990,666
Private mortgage-backed securities	322	5	(2)	325
Total	$1,708,494	$12,426	$(8,996)	$1,711,924

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity:				
State, county and municipal securities	$188,941	$5,949	$(386)	$194,504
Corporate securities	32,565	54	(75)	32,544
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	353,176	5,563	(1,758)	356,981
Other Investments	504	—	—	504
Total	$575,186	$11,566	$(2,219)	$584,533

Gross realized gains and losses from the disposition of investment securities are summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gross realized gains	$23	$—	$75	$243
Gross realized losses	—	(8)	—	(163)

The following tables show the gross unrealized losses and fair values of investment securities, aggregated by investment category, and the length of time individual investment securities have been in a continuous unrealized loss position, as of September 30, 2015 and December 31, 2014.

	Less than 12 Months		12 Months or More		Total	
September 30, 2015	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale:						

Obligations of U.S. government agencies	$106,516	$(85	)	$131,365	$(265	)	$237,881	$(350	)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	25,664	(106	)	80,116	(1,178	)	105,780	(1,284	)
Private mortgage-backed securities	—	—		71	(2	)	71	(2	)
Total	$132,180	$(191	)	$211,552	$(1,445	)	$343,732	$(1,636	)

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

	Less than 12 Months		12 Months or More		Total	
September 30, 2015	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity:						
State, county and municipal securities	$6,398	$(26)	$10,493	$(174)	$16,891	$(200)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	14,834	(3,081)	27,344	(584)	42,178	(3,665)
Corporate securities	15,042	(49)	—	—	15,042	(49)
Total	$36,274	$(3,156)	$37,837	$(758)	$74,111	$(3,914)

	Less than 12 Months		12 Months or More		Total	
December 31, 2014	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-Sale:						
Obligations of U.S. government agencies	$135,888	$(702)	$309,283	$(4,668)	$445,171	$(5,370)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	219,214	(887)	151,380	(2,737)	370,594	(3,624)
Private mortgage-backed securities	—	—	90	(2)	90	(2)
Total	$355,102	$(1,589)	$460,753	$(7,407)	$815,855	$(8,996)

	Less than 12 Months		12 Months or More		Total	
December 31, 2014	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity:						
State, county and municipal securities	$7,979	$(13)	$20,097	$(373)	$28,076	$(386)
U.S. agency residential mortgage-backed securities & collateralized mortgage obligations	61,201	(1,758)	—	—	61,201	(1,758)
Corporate securities	14,755	(75)	—	—	14,755	(75)
Total	$83,935	$(1,846)	$20,097	$(373)	$104,032	$(2,219)

The investment portfolio is evaluated quarterly for other-than-temporary declines in the market value of each individual investment security. The Company had 113 and 154 individual investment securities that were in an unrealized loss position as of September 30, 2015 and December 31, 2014, respectively. Unrealized losses as of September 30, 2015 and December 31, 2014 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 not likely that the Company will have to sell any such securities before a recovery in cost. No impairment losses were recorded during the three and nine months ended September 30, 2015 and 2014.

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Maturities of investment securities at September 30, 2015 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	
September 30, 2015	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$344,473	$348,859	$92,096	$94,244
After one year but within five years	1,119,450	1,130,128	266,554	271,638
After five years but within ten years	56,054	56,755	120,530	123,839
After ten years	9,211	9,351	43,363	44,912
Total	$1,529,188	$1,545,093	$522,543	$534,633

As of September 30, 2015, the Company had investment securities callable within one year with amortized costs and estimated fair values of $82,568 and $82,773, respectively, including callable structured notes with amortized costs and estimated fair values of $10,000 and $10,000, respectively. These investment securities are primarily classified as available-for-sale and included in the after one year but within five years category in the table above.

(4) Loans

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

	September 30, 2015	December 31, 2014
Real estate loans:		
Commercial	$1,750,797	$1,639,422
Construction:		
Land acquisition & development	212,990	220,443
Residential	112,495	96,580
Commercial	93,775	101,246
Total construction loans	419,260	418,269
Residential	1,020,445	999,903
Agricultural	163,116	167,659
Total real estate loans	3,353,618	3,225,253
Consumer:		
Indirect consumer	616,142	552,863
Other consumer	150,170	144,141
Credit card	65,649	65,467
Total consumer loans	831,961	762,471
Commercial	778,648	740,073
Agricultural	154,855	124,859
Other, including overdrafts	1,712	3,959
Loans held for investment	5,120,794	4,856,615
Mortgage loans held for sale	55,686	40,828
Total loans	$5,176,480	$4,897,443

Loans from business combinations included in the table above include certain loans that had evidence of deterioration in credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected.

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

The following table displays the outstanding unpaid principal balance, accrued interest receivable and accrual status of loans acquired with credit impairment as of September 30, 2015 and 2014:

As of September 30,	2015	2014
Outstanding balance	$35,265	$42,627
Carrying value		
Loans on accrual status	22,867	32,350
Loans on non-accrual status	—	—
Total carrying value	$22,867	$32,350

The following table summarizes changes in the accretable yield for loans acquired credit impaired for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balance	$7,482	$—	$5,781	$—
Additions	624	5,233	1,073	5,233
Accretion income	(845)	(289)	(2,200)	(289)
Reductions due to exit events	(143)	(16)	(539)	(16)
Reclassifications from nonaccretable differences	347	—	3,350	—
Ending balance	$7,465	$4,928	$7,465	$4,928

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 September 30, 2015	30 - 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Loans 30 or More Days Past Due	Current Loans	Non-accrual Loans	Total Loans
Real estate							
Commercial	$5,968	$664	$398	$7,030	$1,720,928	$22,839	$1,750,797
Construction:							
Land acquisition & development	4,495	6,530	44	11,069	192,819	9,102	212,990
Residential	1,011	134	—	1,145	111,021	329	112,495
Commercial	—	—	—	—	92,792	983	93,775
Total construction loans	5,506	6,664	44	12,214	396,632	10,414	419,260
Residential	5,639	2,355	761	8,755	1,009,119	2,571	1,020,445
Agricultural	881	—	—	881	155,443	6,792	163,116
Total real estate loans	17,994	9,683	1,203	28,880	3,282,122	42,616	3,353,618
Consumer:							
Indirect consumer	3,991	683	91	4,765	610,641	736	616,142

Other consumer	1,012	264	25	1,301	148,119	750	150,170
Credit card	402	325	518	1,245	64,391	13	65,649
Total consumer loans	5,405	1,272	634	7,311	823,151	1,499	831,961
Commercial	3,440	717	1,083	5,240	751,769	21,639	778,648
Agricultural	281	—	126	407	153,843	605	154,855
Other, including overdrafts	—	—	311	311	1,401	—	1,712
Loans held for investment	27,120	11,672	3,357	42,149	5,012,286	66,359	5,120,794
Mortgage loans originated for sale	—	—	—	—	55,686	—	55,686
Total loans	$27,120	$11,672	$3,357	$42,149	$5,067,972	$66,359	$5,176,480

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As of December 31, 2014	30 - 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Loans 30 or More Days Past Due	Current Loans	Non-accrual Loans	Total Loans
Real estate							
Commercial	$4,692	$1,609	$331	$6,632	$1,605,421	$27,369	$1,639,422
Construction:							
Land acquisition & development	839	383	—	1,222	210,969	8,252	220,443
Residential	—	475	—	475	95,833	272	96,580
Commercial	100	—	—	100	98,582	2,564	101,246
Total construction loans	939	858	—	1,797	405,384	11,088	418,269
Residential	6,969	645	1,762	9,376	987,735	2,792	999,903
Agricultural	1,624	236	—	1,860	158,957	6,842	167,659
Total real estate loans	14,224	3,348	2,093	19,665	3,157,497	48,091	3,225,253
Consumer:							
Indirect consumer	3,235	482	6	3,723	548,757	383	552,863
Other consumer	988	140	32	1,160	142,432	549	144,141
Credit card	369	284	315	968	64,484	15	65,467
Total consumer loans	4,592	906	353	5,851	755,673	947	762,471
Commercial	3,659	994	147	4,800	722,575	12,698	740,073
Agricultural	1,125	—	—	1,125	123,288	446	124,859
Other, including overdrafts	—	—	—	—	3,959	—	3,959
Loans held for investment	23,600	5,248	2,593	31,441	4,762,992	62,182	4,856,615
Mortgage loans originated for sale	—	—	—	—	40,828	—	40,828
Total loans	$23,600	$5,248	$2,593	$31,441	$4,803,820	$62,182	$4,897,443

Acquired loans that met the criteria for nonaccrual of interest prior to acquisition were considered performing upon acquisition. If interest on non-accrual loans had been accrued, such income would have been approximately $828 and $992 for the three months ended September 30, 2015 and 2014, respectively, and approximately $2,331 and $3,176 for the nine months ended September 30, 2015 and 2014 respectively.

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The Company considers impaired loans to include all loans, except consumer loans, that are risk rated as doubtful, or have been placed on non-accrual status or renegotiated in troubled debt restructurings. The following tables present information on the Company's recorded investment in impaired loans as of dates indicated:

As of September 30, 2015	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	$55,910	$26,265	$17,131	$43,396	$1,451
Construction:					
Land acquisition & development	19,349	9,509	1,212	10,721	254
Residential	1,037	329	—	329	—
Commercial	1,290	369	740	1,109	740
Total construction loans	21,676	10,207	1,952	12,159	994
Residential	3,664	2,186	645	2,831	148
Agricultural	9,043	6,407	2,191	8,598	708
Total real estate loans	90,293	45,065	21,919	66,984	3,301
Commercial	28,653	10,315	13,461	23,776	5,154
Agricultural	2,043	367	1,106	1,473	462
Total	$120,989	$55,747	$36,486	$92,233	$8,917

As of December 31, 2014	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Commercial	$41,603	$28,143	$11,246	$39,389	$1,608
Construction:					
Land acquisition & development	12,511	7,262	1,615	8,877	574
Residential	459	272	—	272	—
Commercial	2,729	253	2,442	2,695	904
Total construction loans	15,699	7,787	4,057	11,844	1,478
Residential	2,959	2,452	341	2,793	143
Agricultural	8,844	6,444	2,305	8,749	732
Total real estate loans	69,105	44,826	17,949	62,775	3,961
Commercial	16,904	11,882	2,644	14,526	1,190
Agricultural	1,231	342	837	1,179	641
Total	$87,240	$57,050	$21,430	$78,480	$5,792

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

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

	Three Months Ended September 30,			
	2015		2014	
	Average Recorded Investment	Income Recognized	Average Recorded Investment	Income Recognized
Real estate:				
Commercial	$36,075	$226	$53,492	$211
Construction:				
Land acquisition & development	9,325	29	11,611	11
Residential	330	—	304	—
Commercial	2,339	4	2,709	2
Total construction loans	11,994	33	14,624	13
Residential	2,607	4	4,773	1
Agricultural	8,578	27	9,031	25
Total real estate loans	59,254	290	81,920	250
Commercial	22,483	2	14,252	14
Agricultural	937	13	906	6
Total	$82,674	$305	$97,078	$270

	Nine Months Ended September 30,			
	2015		2014	
	Average Recorded Investment	Income Recognized	Average Recorded Investment	Income Recognized
Real estate:				
Commercial	$38,639	$587	$57,743	$668
Construction:				
Land acquisition & development	9,591	51	13,529	33
Residential	300	—	799	—
Commercial	1,902	6	1,520	6
Total construction loans	11,793	57	15,848	39
Residential	2,720	6	5,537	4
Agricultural	8,661	62	10,223	54
Total real estate loans	61,813	712	89,351	765
Commercial	18,175	122	14,001	42
Agricultural	848	26	707	18
Total	$80,836	$860	$104,059	$825

The amount of interest income recognized by the Company within the period that the loans were impaired was primarily related to loans modified in a troubled debt restructuring that remained on accrual status. Interest payments received on non-accrual impaired loans are applied to principal. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. If interest on impaired loans had been accrued, interest income on impaired loans would have been approximately $998 and $1,246 for the three months ended September 30, 2015 and 2014, respectively, and approximately $2,932 and $3,927 for the nine months ended September 30, 2015 and 2014 respectively.

Collateralized impaired loans are generally recorded at the fair value of the underlying collateral using discounted cash flows, independent appraisals and management estimates based upon current market conditions. For loans measured under the present value of cash flows method, the change in present value attributable to the passage of time, if applicable, is recognized in the provision for loan losses and thus no interest income is recognized.

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

Modifications of performing loans are made in the ordinary course of business and are completed on a case-by-case basis as negotiated with the borrower. Loan modifications typically include interest rate concessions, interest only periods of less than twelve months, short-term payment deferrals and extension of amortization periods to provide payment relief. A loan modification is considered a troubled debt restructuring if the borrower is experiencing financial difficulties and the Company, for economic or legal reasons, grants a concession to the borrower that it would not otherwise consider. Certain troubled debt restructurings are on non-accrual status at the time of restructuring and are typically returned to accrual status after considering the borrower's sustained repayment performance in accordance with the restructuring agreement for a period of at least six months and management is reasonably assured of future performance. If the troubled debt restructuring meets these performance criteria and the interest rate granted at the modification is equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, then the loan will return to performing status and the accrual of interest will resume.

The Company had loans renegotiated in troubled debt restructurings of $42,547 as of September 30, 2015, of which $25,845 were included in non-accrual loans and $16,702 were on accrual status. The Company had loans renegotiated in troubled debt restructurings of $44,227 as of December 31, 2014, of which $23,275 were included in non-accrual loans and $20,952 were on accrual status.

The following table presents information on the Company's troubled debt restructurings that occurred during the three and nine months ended September 30, 2015.

		Type of Concession				
Three Months Ended September 30, 2015	Number of Notes	Interest only period	Extension of terms or maturity	Interest rate adjustment	Other (1)	Principal Balance at Restructure Date
Residential Construction	1	$—	$—	$—	$67	$67
Indirect consumer	2	—	—	—	31	31
Commercial	8	—	8,744	2,959	463	12,166
Total loans restructured during period	11	$—	$8,744	$2,959	$561	$12,264

(1) Other includes concessions that reduce or defer payments for a specified period of time and/or do not fit into other designated categories.

		Type of Concession				
Nine Months Ended September 30, 2015	Number of Notes	Interest only period	Extension of terms or maturity	Interest rate adjustment	Other	Principal Balance at Restructure Date
Residential Construction	1	$—	$—	$—	$67	$67
Indirect Consumer	2	—	—	—	31	31
Commercial	9	—	8,754	2,959	463	12,176
Total loans restructured during period	12	$—	$8,754	$2,959	$561	$12,274

(1) Other includes concessions that reduce or defer payments for a specified period of time and/or do not fit into other designated categories.

For troubled debt restructurings that were on non-accrual status or otherwise deemed impaired before the modification, a specific reserve may already be recorded. In periods subsequent to modification, the Company continues to evaluate all troubled debt restructurings for possible impairment and recognizes impairment through the allowance. Additionally these loans continue to work their way through the credit cycle through charge-off, pay-off or foreclosure. Financial effects of modifications of troubled debt restructurings may include principal loan forgiveness or other charge-offs directly related to the restructuring. The Company had no charge-offs directly related to modifying troubled debt restructurings during the three or nine months ended September 30, 2015 or 2014.

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

The following table presents information on the Company's troubled debt restructurings during the previous 12 months for which there was a payment default during the periods indicated. The Company considers a payment default to occur on troubled debt restructurings when the loan is 90 days or more past due or was placed on non-accrual status after the modification.

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Number of Notes	Balance	Number of Notes	Balance
Commercial Real Estate	—	$—	1	$1,745
Commercial	3	264	3	264
Total	3	$264	4	$2,009

At September 30, 2015, there were no material commitments to lend additional funds to borrowers whose existing loans have been renegotiated or are classified as non-accrual.

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 loan 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 non-accrual status and are assigned specific loss exposure.

Company management undertakes the same process for assigning risk ratings to acquired loans as it does for originated loans. Acquired loans rated as substandard or lower or that were on non-accrual status or designated as troubled debt restructurings at the time of acquisition are deemed to be acquired credit impaired loans accounted for under ASC Topic 310-30, regardless of whether they are classified as performing or non-performing loans.

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The following tables present the Company’s recorded investment in criticized loans by class and credit quality indicator based on the most recent analysis performed as of the dates indicated:

As of September 30, 2015	Other Assets Especially Mentioned	Substandard	Doubtful	Total Criticized Loans
Real estate:				
Commercial	$76,483	$86,047	$5,095	$167,625
Construction:				
Land acquisition & development	14,928	16,137	630	31,695
Residential	1,230	2,219	27	3,476
Commercial	—	352	757	1,109
Total construction loans	16,158	18,708	1,414	36,280
Residential	6,016	12,117	645	18,778
Agricultural	8,549	16,095	612	25,256
Total real estate loans	107,206	132,967	7,766	247,939
Consumer:				
Indirect consumer	774	1,180	164	2,118
Other consumer	687	928	307	1,922
Credit card	—	—	—	—
Total consumer loans	1,461	2,108	471	4,040
Commercial	43,384	21,213	15,638	80,235
Agricultural	3,106	7,558	672	11,336
Total	$155,157	$163,846	$24,547	$343,550

As of December 31, 2014	Other Assets Especially Mentioned	Substandard	Doubtful	Total Criticized Loans
Real estate:				
Commercial	$84,533	$83,448	$15,246	$183,227
Construction:				
Land acquisition & development	11,826	15,016	2,507	29,349
Residential	2,029	2,666	—	4,695
Commercial	39	253	2,442	2,734
Total construction loans	13,894	17,935	4,949	36,778
Residential	10,473	10,848	1,121	22,442
Agricultural	10,122	12,328	612	23,062
Total real estate loans	119,022	124,559	21,928	265,509
Consumer:				
Indirect consumer	916	1,590	121	2,627
Other consumer	553	1,085	432	2,070
Credit card	—	348	1,263	1,611
Total consumer loans	1,469	3,023	1,816	6,308
Commercial	25,766	32,433	10,273	68,472
Agricultural	7,827	3,660	837	12,324
Total	$154,084	$163,675	$34,854	$352,613

The Company maintains a credit review function, which is independent of the credit approval process, 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 categories of criticized loans.

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(5) Allowance for Loan Losses

The following tables present a summary of changes in the allowance for loan losses by portfolio segment for the periods indicated.

Three Months Ended September 30, 2015	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Beginning balance	$53,935	$5,828	$15,797	$992	$—	$76,552
Provision charged to operating expense	(1,149)	430	2,004	(187)	—	1,098
Less loans charged-off	(2,219)	(1,537)	(791)	—	—	(4,547)
Add back recoveries of loans previously charged-off	389	653	111	—	—	1,153
Ending balance	$50,956	$5,374	$17,121	$805	$—	$74,256

Nine Months Ended September 30, 2015	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Beginning balance	$53,884	$5,035	$14,307	$974	$—	$74,200
Provision charged to operating expense	(1,718)	2,201	3,220	(170)	—	3,533
Less loans charged-off	(3,014)	(3,675)	(1,227)	—	—	(7,916)
Add back recoveries of loans previously charged-off	1,804	1,813	821	1	—	4,439
Ending balance	$50,956	$5,374	$17,121	$805	$—	$74,256

As of September 30, 2015	Real Estate	Consumer	Commercial	Agriculture	Other	Total
Allowance for loan losses:						
Loans individually evaluated for impairment	$3,301	$—	$5,154	$462	$—	$8,917
Loans collectively evaluated for impairment	47,655	5,374	11,967	343	—	65,339
Allowance for loan losses	$50,956	$5,374	$17,121	$805	$—	$74,256
Total loans:						
Individually evaluated for impairment	$67,195	$—				