

GIGAMEDIA LTD
Form 6-K
June 03, 2008

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15D-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934
For the month of June, 2008
Commission File Number: 000-30540
GIGAMEDIA LIMITED
207 Tiding Blvd Section 2
Taipei, Taiwan (R.O.C.)**

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b) :82-.)

GIGAMEDIA LIMITED is submitting under cover of Form 6-K:

1. GigaMedia Notice of Annual Shareholder Meeting and Proxy Statement (attached hereto as Exhibit 99.1)
-

TABLE OF CONTENTS

Signatures

EX-99.1 NOTICE OF THE NINTH ANNUAL GENERAL MEETING OF SHAREHOLDERS

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.

GigaMedia Limited

(Registrant)

Date: June 2, 2008

By: /s/ Thomas T. Hui

(Signature)

Name: Thomas T. Hui

Title: President and Chief Operating Officer

:center;font-size:9pt;">Tax Expense (Benefit)

Net of Tax

Six Months Ended June 30,
2012

2011

2012

2011

2012

2011

Investment securities available-for sale:

Change in net unrealized gain during period

\$
(1,107
)

\$
21,419

\$
(436
)

\$
8,428

\$
(671
)

\$
12,991

Reclassification adjustment for net gains included in net income

(229
)

(18
)

(90
)

(7
)

(139
)

(11
)

Defined benefits post-retirement benefit plan:

Change in net actuarial loss
68

69

27

27

41

42

Total other comprehensive income

\$
(1,268
)

\$
21,470

\$
(499
)

\$
8,448

\$
(769
)

\$
13,022

25

Table of Contents

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

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

	June 30, 2012	December 31, 2011
Net unrealized gain on investment securities available-for-sale	\$19,723	\$20,533
Net actuarial loss on defined benefit post-retirement benefit plans	(1,458)	(1,499)
Net accumulated other comprehensive income	\$18,265	\$19,034

(14) Fair Value Measurements

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

	Balance as of June 30, 2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale:				
Obligations of U.S. government agencies	\$1,028,957	\$—	\$1,028,957	\$—
U.S. agencies mortgage-backed securities & collateralized mortgage obligations	884,376	—	884,376	—
Private mortgage-backed securities	650	—	650	—
Mortgage servicing rights	14,180	—	14,180	—

	Balance as of December 31, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale:				
Obligations of U.S. government agencies	\$1,138,118	\$—	\$1,138,118	\$—
U.S. agencies mortgage-backed securities & collateralized mortgage obligations	877,997	—	877,997	—
Private mortgage-backed securities	749	—	749	—
Mortgage servicing rights	11,910	—	11,910	—
Derivative liability contract	383	—	—	383

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, 2012 and 2011:

Six Months Ended June 30,	2012	2011
Balance, beginning of period	\$383	\$86

Edgar Filing: GIGAMEDIA LTD - Form 6-K

Accruals during the period	—	164	
Cash payments during the period	(383) (128)
Balance, end of period	\$—	\$122	

There were no transfers between levels of the fair value hierarchy during the six months ended June 30, 2012 or 2011.

Table of Contents

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

The methodologies used by the Company in determining the fair values of each class of financial instruments are based primarily on the use of independent, market-based data to reflect a value that would be reasonably expected in an orderly transaction between market participants at the measurement date. The Company obtains fair value measurements for investment securities from an independent pricing service and evaluates mortgage servicing rights for impairment using an independent valuation service. The vendors chosen by the Company are widely recognized vendors whose evaluations support the pricing functions of financial institutions, investment and mutual funds, and portfolio managers. The Company has documented and evaluated the pricing methodologies used by the vendors and maintains internal processes that regularly test valuations. These internal processes include obtaining and reviewing available reports on internal controls, evaluating the prices for reasonableness given market changes, obtaining and evaluating the inputs used in the model for a sample of securities, investigating anomalies and confirming determinations through discussions with the vendor. For investment securities, if needed, a broker may be utilized to determine the reported fair value. Further details on the methods used to estimate the fair value of each class of financial instruments above are discussed below:

Investment Securities Available-for-Sale. 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 fair value of the derivative liability contract is estimated utilizing an internal valuation model with significant unobservable inputs including the Company's expectations regarding the ultimate resolution of the Visa litigation and loss severity in the event of unfavorable litigation outcomes. The probability of unfavorable litigation outcomes and the estimation of loss severity is determined through review of Visa's press releases and public filings made with the Securities and Exchange Commission and managements' estimation of the effect of changes in litigation status on the value of the derivative liability contract. On July 13, 2012, Visa entered into a memorandum of understanding to enter into a proposed settlement of certain litigation. If approved, the proposed settlement will not result in additional material liability to the Company.

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.

Table of Contents

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

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

	Balance as of June 30, 2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$69,893	\$—	\$—	\$69,893
Other real estate owned	16,442	—	—	16,442
Long-lived assets to be disposed of by sale	496	—	496	—

	Balance as of December 31, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$100,035	\$—	\$—	\$100,035
Other real estate owned	17,000	—	—	17,000

Impaired Loans. Collateralized 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 independent appraisals and management estimates of current market conditions. As of June 30, 2012, certain impaired loans with a carrying value of \$111,929 were reduced by specific valuation allowance allocations of \$16,848 and partial loan charge-offs of \$25,188 resulting in a reported fair value of \$69,893. As of December 31, 2011, certain impaired loans with a carrying value of \$167,078 were reduced by specific valuation allowance allocations of \$32,838 and partial loan charge-offs of \$34,205 resulting in a reported fair value of \$100,035.

OREO. The fair values of OREO are estimated using independent appraisals and management estimates of current market conditions. Upon initial recognition, write-downs based on the foreclosed asset's fair value at foreclosure are reported through charges to the allowance for 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. Write-downs of \$1,147 during the six months ended June 30, 2012 included adjustments of \$625 directly related to receipt of updated appraisals and adjustments of \$522 based on management estimates of the current fair value of properties. Write-downs of \$3,515 during the six months ended June 30, 2011 included adjustments of \$291 directly related to receipt of updated appraisals and adjustments of \$3,224 based on management estimates of the current fair value of properties.

Long-lived Assets to be Disposed of by Sale. Long-lived assets to be disposed of by sale are carried at the lower of carrying value or fair value less estimated costs to sell. The fair values of long-lived assets to be disposed of by sale are based upon observable market data and management estimates of current market conditions. As of June 30, 2012, a long-lived asset to be disposed of by sale with a carrying value of \$566 was reduced by write-downs of \$70 charged to other expense resulting in a reported fair value of \$496. As of December 31, 2011, the Company had a long-lived asset to be disposed of by sale of \$1,513 that was carried at cost.

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, 2012 and December 31, 2011, all mortgage loans held for sale were recorded at cost.

Table of Contents

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

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 amount 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 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, fixed rate subordinated debentures 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.

Table of Contents

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

The estimated fair values of financial instruments that are reported at amortized cost in the Company's consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, are as follows:

As of June 30, 2012	Carrying Amount	Estimated Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices		
			in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$536,653	\$536,653	\$—	\$536,653	\$—
Investment securities available-for-sale	1,913,983	1,913,983	—	1,913,983	—
Investment securities held-to-maturity	166,926	177,532	—	177,532	—
Accrued interest receivable	30,936	30,936	—	30,936	—
Mortgage servicing rights, net	11,985	14,180	—	14,180	—
Net loans	4,067,169	4,055,520	—	3,985,627	69,893
Total financial assets	\$6,727,652	\$6,728,804	\$—	\$6,658,911	\$69,893
Financial liabilities:					
Total deposits, excluding time deposits	\$4,419,969	4,419,969	—	4,419,969	—
Time deposits	1,481,410	1,488,737	—	1,488,737	—
Securities sold under repurchase agreements	455,993	455,993	—	455,993	—
Other borrowed funds	7	7	—	7	—
Accrued interest payable	8,215	8,215	—	8,215	—
Long-term debt	37,181	34,101	—	34,101	—
Subordinated debentures held by subsidiary trusts	82,477	61,380	—	61,380	—
Total financial liabilities	\$6,485,252	\$6,468,402	\$—	\$6,468,402	\$—
As of December 31, 2011	Carrying Amount	Estimated Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices		
			in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$472,447	\$472,447	\$—	\$472,447	\$—

Edgar Filing: GIGAMEDIA LTD - Form 6-K

Investment securities available-for-sale	2,016,864	2,016,864	—	2,016,864	—
Investment securities held-to-maturity	152,781	161,877	—	161,877	—
Accrued interest receivable	31,974	31,974	—	31,974	—
Mortgage servicing rights, net	11,555	11,910	—	11,910	—
Net loans	4,073,968	4,064,718	—	3,964,683	100,035
Total financial assets	\$6,759,589	\$6,759,790	\$—	\$6,659,755	\$100,035
Financial liabilities:					
Total deposits, excluding time deposits	\$4,269,631	\$4,269,631	\$—	\$4,269,631	\$—
Time deposits	1,557,340	1,565,558	—	1,565,558	—
Securities sold under repurchase agreements	516,243	516,243	—	516,243	—
Other borrowed funds	7	7	—	7	—
Accrued interest payable	8,123	8,123	—	8,123	—
Long-term debt	37,200	34,341	—	34,341	—
Subordinated debentures held by subsidiary trusts	123,715	102,525	—	102,525	—
Derivative contract liability	383	383	—	—	383
Total financial liabilities	\$6,512,642	\$6,496,811	\$—	\$6,496,428	\$383

Table of Contents

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

(15) Recent Authoritative Accounting
Guidance

ASU No. 2011-03, "Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements." Accounting Standards Update ("ASU") No. 2011-03 is intended to improve financial reporting for repurchase agreements and other agreements 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 provisions of ASU No. 2011-03 became effective for the Company on January 1, 2012 and did not impact the Company's consolidated financial statements, results of operations or liquidity.

ASU No. 2011-04, "Fair Value Measurements (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 amends Topic 820, "Fair Value Measurements and disclosures," to converge the fair value measurements guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU No. 2011-04 became effective for the Company on January 1, 2012 and did not have a significant impact on the Company's consolidated financial statements, results of operations or liquidity.

ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 became effective for the Company on January 1, 2012; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," as further discussed below. Adoption of the provisions of ASU 2011-05 did not have a significant impact on the Company's consolidated financial statements, results of operations or liquidity.

ASU 2011-08, "Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment." ASU 2011-08 amends Topic 350, "Intangibles - Goodwill and Other," to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and will not have a significant

impact on the Company's consolidated financial statements, results of operations or liquidity.

ASU 2011-11, "Balance Sheet (Topic 210) - "Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company's consolidated financial statements, results of operations or liquidity.

Table of Contents

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

ASU 2011-12 “Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.” ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. ASU 2011-12 became effective for the Company on January 1, 2012 and did not have a significant impact on the Company's consolidated financial statements, results of operations or liquidity.

ASU 2012-02 "Intangibles - Goodwill and Other Topics (Topic 350)." ASU 2012-02 amends Topic 350, “Intangibles - Goodwill and Other,” to reduce the cost and complexity of performing an impairment test for indefinite-lived assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments in ASU 2012-02 permit an entity to first assess the qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. In addition, ASU 2012-02 provides an entity with an option not to calculate annually the fair value of in indefinite-lived intangible asset if the entity determines that it is not more likely than not that the asset is impaired. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted including for annual and interim impairment test performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued. Adoption of the amendments in ASU 2012-02 will not have a significant impact on the Company's consolidated financial statements, results of operations or liquidity.

(16) 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.

Table of Contents

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, 2011, including the audited financial statements contained therein, filed with the Securities and Exchange Commission, or 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, and Rule 3b-6 promulgated thereunder, that involve inherent risks and uncertainties. Any statements about our plans, objectives, expectations, strategies, beliefs, or future performance or events constitute forward-looking statements. Such statements are identified as those that include words or phrases such as "believes," "expects," "anticipates," "plans," "trend," "objective," "continue" or similar expressions or future or conditional verbs such as "will," "would," "should," "could," "might," "may" or similar expressions. Forward-looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other important factors that could cause actual results to differ materially from any results, performance or events expressed or implied by such forward-looking statements. The following factors, among others, may cause actual results to differ materially from current expectations in the forward-looking statements, including those set forth in this report: credit losses; concentrations of real estate loans; economic and market developments, including inflation; commercial loan risk; adequacy of the allowance for loan losses; impairment of goodwill; changes in interest rates; access to low-cost funding sources; increases in deposit insurance premiums; inability to grow business; adverse economic conditions affecting Montana, Wyoming and western South Dakota; governmental regulation and changes in regulatory, tax and accounting rules and interpretations; sweeping changes in regulation of financial institutions due to passage of the Dodd-Frank Act; changes in or noncompliance with governmental regulations; effects of recent legislative and regulatory efforts to stabilize financial markets; dependence on the Company's management team; ability to attract and retain qualified employees; failure of technology; reliance on external vendors; disruption of vital infrastructure and other business interruptions; illiquidity in the credit markets; inability to meet liquidity requirements; lack of acquisition candidates; failure to manage growth; competition; inability to manage risks in turbulent and dynamic market conditions; ineffective internal operational controls; environmental remediation and other costs; failure to effectively implement technology-driven products and services; litigation pertaining to fiduciary responsibilities; capital required to support the Company's bank subsidiary; soundness of other financial institutions; impact of Basel III capital standards and forthcoming new capital rules proposed for U.S. banks; inability of our bank subsidiary to pay dividends; change in dividend policy; lack of public market for our Class A common stock; volatility of Class A common stock; voting control of Class B stockholders; decline in market price of Class A common stock; dilution as a result of future equity issuances; uninsured nature of any investment in Class A common stock; anti-takeover provisions; controlled company status; subordination of common stock to Company debt; uncertainties associated with introducing new products or lines of business; and, downgrade of the U.S. credit rating.

A more detailed discussion of each of the foregoing risks is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 28, 2012. These factors and the other risk factors described in the Company's periodic and current reports filed with the SEC from time to time, however, are not necessarily all of

the important factors that could cause the Company's actual results, performance or achievements to differ materially from those expressed in or implied by any of the Company's forward-looking statements. Other unknown or unpredictable factors also could harm the Company's results. Investors and others are encouraged to read the more detailed discussion of the Company's risks contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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.

Table of Contents

Executive Overview

We are a financial and bank holding company headquartered in Billings, Montana. As of June 30, 2012, we had consolidated assets of \$7,305 million, deposits of \$5,901 million, loans of \$4,170 million and total stockholders' equity of \$786 million. We currently operate 72 banking offices in 42 communities located in Montana, Wyoming and western South Dakota. Through the Bank, we deliver a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities throughout our market areas. Our customers participate in a wide variety of industries, including energy, tourism, agriculture, healthcare, professional services, education, governmental services, construction, mining, retail and wholesale trade.

Our Business

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

Our loan portfolio consists of a mix of real estate, consumer, commercial, agricultural and other loans, including fixed and variable rate loans. Our real estate loans comprise commercial real estate, construction (including residential, commercial and land development loans), residential, agricultural and other real estate loans. Fluctuations in the loan portfolio are directly related to the economies of the communities we serve. While each loan originated generally must meet minimum underwriting standards established in our credit policies, lending officers are granted discretion within pre-approved limits in approving and pricing loans to assure that the banking offices are responsive to competitive issues and community needs in each market area. We fund our loan portfolio primarily with the core deposits from our customers, generally without utilizing brokered deposits and with minimal reliance on wholesale funding sources.

Recent Trends and Developments

Asset Quality

Non-performing assets decreased to \$226 million, or 5.35% of total loans and OREO as of June 30, 2012, from \$279 million, or 6.60% of total loans and OREO as of December 31, 2011, primarily due to the movement of non-accrual loans out of the loan portfolio through charge-offs or foreclosure. Loan charge-offs, net of recoveries, totaled \$25 million during the second quarter of 2012, as compared to \$8 million during first quarter 2012 and \$15 million during second quarter 2011. Net charge-offs during 2012 are expected to approximate 2011 levels as problem loans continue to work through the credit cycle. Loans charged-off during second quarter 2012 were primarily comprised of land development, commercial construction and commercial real estate loans, with nine borrowers accounting for 73% of the loans charged-off.

Provisions for loan losses decreased \$3.4 million, or 22.1%, to \$12.0 million for the three months ended June 30, 2012, as compared to \$15.4 million for the same period in 2011, and \$7.2 million, or 23.5%, to \$23.3 million for the six months ended June 30, 2012, as compared to \$30.5 million for the same period in 2011. These decreases are reflective of continued improvement and stabilization of credit quality as evidenced by declining levels of non-performing and criticized loans.

Net Interest Margin

Our net interest margin ratio, on a fully taxable-equivalent, or FTE, basis, decreased 10 basis points to 3.74% for the three months ended June 30, 2012, as compared to 3.84% for the same period in 2011, and 5 basis points to 3.73% for the six months ended June 30, 2012, from 3.78% during the same period in 2011. These decreases were attributable to lower outstanding loan balances and lower yields earned on our loan and investment portfolios, which were partially offset by reductions in the cost of interest bearing liabilities combined with a continued shift away from higher costing savings and time deposits to lower-costing demand deposits. Absent meaningful loan growth, management expects further compression in the net FTE interest margin ratio in future quarters.

Table of Contents

Origination and Sale of Residential Mortgage Loans

With market interest rates dipping to record lows, we experienced a 111.0% increase in residential mortgage loan origination activity during the first half of 2012 as compared to the same period in 2011, resulting in significantly higher income from the origination and sale of loans during the three and six months ended June 30, 2012, as compared to the same periods in the prior year. Income from the origination and sale of loans increased \$5.3 million, or 129.3%, to \$9.4 million during the three months ended June 30, 2012, compared to \$4.1 million during the same period in 2011, and \$10.3 million, or 135.7%, to \$17.8 million during the six months ended June 30, 2012, as compared to \$7.6 million during the same period in 2011. Loans for new home purchases accounted for 35% of our residential mortgage loan origination activity during the first half of 2012, an increase of 40.2% from the same period in the prior year. While refinancing activity accounted for 65% of our residential mortgage loan origination activity during the first half of 2012, as compared to 47% during the same period in 2011, management does not expect this level of refinancing activity to continue in future quarters.

Regulatory Capital Proposals

On June 4, 2012, the Board of Governors of the Federal Reserve System, or the Board, issued three notices of proposed rulemaking, or NPRs. Taken together, the NPRs would restructure the Board's current regulatory capital rules into a comprehensive framework and revise current regulatory capital requirements to make them consistent with the Basel III capital standards established by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The first NPR is primarily focused on proposed reforms to improve the overall quality and quantity of banking organizations' capital. The NPR introduces a new common equity tier 1 minimum capital requirement of 4.5% of risk-weighted assets and increases the minimum tier 1 capital requirement from 4.0% to 6.0% of risk-weighted assets. The minimum total risk-based capital requirement would remain unchanged at 8.0%. In addition to the minimum common equity tier 1, tier 1 and total risk-based capital requirements, banking organizations would be required to hold a buffer of common equity tier 1 capital in an amount above 2.5% of total risk-weighted assets to avoid restrictions on capital distributions and discretionary bonus payments to executive officers. The NPR also proposes changes to the definition of capital that would prohibit the inclusion in tier 1 capital of instruments that are not perpetual or that permit the accumulation of unpaid dividends or interest, such as trust preferred securities. Additionally, banking organizations would be subject to generally stricter regulatory capital deductions (the majority of which would be taken from common equity tier 1 capital) for mortgage servicing rights, deferred tax assets and certain investments in the capital of unconsolidated financial institutions than under current rules.

The second NPR increases the risk-sensitivity of the Board's general risk-based capital requirements for determining risk-weighted assets by expanding the number of risk-weight categories and increasing the capital required for certain high-risk residential mortgages, higher-risk construction and commercial real estate lending, and certain securitization exposures.

These two NPRs would apply to banks, saving associations and bank holding companies with consolidated assets of \$500 million or more, like us, and to savings and loan holding companies. While these rules would be effective as of January 1, 2013, full compliance with most aspects of the rules would phase-in over a seven-year period. The new minimum regulatory capital ratios and changes to the calculation of risk-weighted assets would be required to be fully implemented effective January 1, 2014. The capital conservation buffer framework would phase-in between 2016 and 2018, with full implementation effective January 1, 2019. These NPRs are subject to final rulemaking by the Board and their provisions may change before their implementation. Management believes, as of June 30, 2012, we would meet all capital adequacy requirements under the proposed rules on a fully phased-in basis if such requirements were

currently effective.

The third NPR would enhance the risk-sensitivity of the advanced approaches risk-based capital rule, including, among other revisions, revisions to better address counterparty credit risk and interconnectedness among financial institutions and incorporation of the Board's market risk rule into the integrated capital framework that would be established by all three proposed rules. This NPR would generally apply only to large, internationally active banking organizations or banking organizations with significant trading activity and would not impact us as currently proposed.

Table of Contents

Proposed Settlement of Visa Interchange Litigation

On July 13, 2012, Visa, MasterCard and U.S. financial institution defendants signed a memorandum of understanding to enter into a settlement agreement to resolve a class-action lawsuit alleging collusion between the defendant banks and the credit card companies to maintain higher credit card interchange fees. Under the terms of the proposed settlement, class merchants may receive a distribution equal to 10 basis points of default interchange for a period of eight months, which would effectively reduce interchange fees received by credit card issuers, like us, during that time. Based on current transaction volumes, a 10 basis point reduction in credit interchange fees would not have a material impact on our consolidated financial statements, results of operations or liquidity. Assuming the proposed settlement agreement is approved by the plaintiffs, the eight-month reduction in interchange fees could begin in mid-to-late 2013.

Primary Factors Used in Evaluating Our Business

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

Results of Operations

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

We seek to increase our non-interest income over time and we evaluate our non-interest income relative to the trends of the individual types of non-interest income in view of prevailing market conditions.

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

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

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

Financial Condition

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

Table of Contents

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

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

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

Critical Accounting Estimates and Significant Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which we operate. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant accounting policies we follow are summarized in Notes 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

Allowance for Loan Losses

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

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

requires significant judgment and the use of subjective measurements, including management's assessment of the internal risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends and the impact of current local, regional and national economic factors on the quality of the loan portfolio. Changes in these estimates and assumptions are possible and may have a material impact on our allowance, and therefore our consolidated financial statements or results of operations. The allowance for loan losses is maintained at an amount we believe is sufficient to provide for estimated losses inherent in our loan portfolio at each balance sheet date, and fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses. Management monitors qualitative and quantitative trends in the loan portfolio, including changes in the levels of past due, internally classified and non-performing loans. Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011 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."

Table of Contents

Goodwill

The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely impairment has occurred. In testing for impairment, the fair value of net assets is estimated based on an analysis of our market value, discounted cash flows and peer values. Determining the fair value of goodwill is considered a critical accounting estimate because of its sensitivity to market-based economics. In addition, any allocation of the fair value of goodwill to assets and liabilities requires significant management judgment and the use of subjective measurements. Variability in market conditions and key assumptions or subjective measurements used to estimate and allocate fair value are reasonably possible and could have a material impact on our consolidated financial statements or results of operations. Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011 describes our accounting policy with regard to goodwill.

Our annual impairment test is performed each year as of July 1st. In addition, due to a significant and prolonged decrease in the market value of bank stocks, including our common stock, during the last half of 2011 we engaged a third party valuation consultant to assist us in determining the fair value of our goodwill as of December 31, 2011. Based on this valuation, we determined that the fair value of our net assets was greater than the Company's carrying value and no impairment existed. We will continue to monitor our performance and evaluate our goodwill for impairment annually or more frequently as needed.

Other Real Estate Owned

Real estate acquired in satisfaction of loans is initially carried at current fair value less estimated selling costs. Any excess of loan carrying value over the fair value of the real estate acquired is recorded as a charge to the allowance for loan losses. Subsequent declines in fair value less estimated selling costs are included in OREO expense. Subsequent increases in fair value less estimated selling costs are recorded as a reduction in OREO expense to the extent of recognized losses. Determining the fair value of OREO is considered a critical accounting estimate due to the assets' sensitivity to changes in estimates and assumptions used. Changes in these estimates and assumptions are reasonably possible and may have a material impact on our consolidated financial statements, liquidity or results of operations. Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011 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 2012, our net interest income on a fully-taxable equivalent, or FTE, basis decreased \$1.3 million, or 2.0%, to \$62.4 million, as compared to \$63.7 million during the same period in 2011, and our net FTE interest margin ratio decreased 10 basis points to 3.74%, as compared to 3.84% during the same period in 2011. For the six months ended June 30, 2012, our net FTE interest income decreased \$2.4 million, or 1.9%, to \$124.2 million, as compared to \$126.6 million during the same period in 2011, and our net FTE interest margin ratio decreased 5 basis points to 3.73%, as compared to 3.78% during the same period in 2011. Decreases in net FTE interest income and net FTE interest margin ratio were attributable to lower outstanding loan balances and lower yields earned on our loan and investment portfolios, which were partially offset by reductions in the cost of interest bearing liabilities combined with a continued shift away from higher costing savings and time deposits to lower-costing demand deposits. Absent meaningful loan growth, management expects further compression in the net FTE interest margin ratio in future quarters.

Table of Contents

The following tables present, 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			
	2012			2011			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	
Interest earning assets:							
Loans (1) (2)	\$4,159,565	\$58,564	5.66	% \$4,269,637	\$61,926	5.82	%
Investment securities (2)	2,094,148	11,414	2.19	2,019,187	12,533	2.49	
Interest bearing deposits in banks	442,698	279	0.25	359,446	227	0.25	
Federal funds sold	3,668	6	0.66	3,871	6	0.62	
Total interest earnings assets	6,700,079	70,263	4.22	6,652,141	74,692	4.50	
Non-earning assets	633,454			617,221			
Total assets	\$7,333,533			\$7,269,362			
Interest bearing liabilities:							
Demand deposits	\$1,596,076	\$606	0.15	% \$1,263,466	\$847	0.27	%
Savings deposits	1,482,986	934	0.25	1,711,210	1,753	0.41	
Time deposits	1,496,597	4,239	1.14	1,780,542	6,303	1.42	
Repurchase agreements	493,450	152	0.12	469,459	171	0.15	
Other borrowed funds	33	—	—	5,459	—	—	
Long-term debt	37,184	495	5.35	37,485	495	5.30	
Subordinated debentures held by subsidiary trusts	120,996	1,467	4.88	123,715	1,455	4.72	
Total interest bearing liabilities	5,227,322	7,893	0.61	5,391,336	11,024	0.82	
Non-interest bearing deposits	1,277,091			1,089,909			
Other non-interest bearing liabilities	47,781			47,791			
Stockholders' equity	781,339			740,326			
Total liabilities and stockholders' equity	\$7,333,533			\$7,269,362			
Net FTE interest income		\$62,370			\$63,668		
Less FTE adjustments (2)		(1,196)			(1,141)		
Net interest income from consolidated statements of income		\$61,174			\$62,527		
Interest rate spread			3.61	%		3.68	%
Net FTE interest margin (3)			3.74	%		3.84	%
Cost of funds, including non-interest bearing demand deposits (4)			0.49	%		0.68	%

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

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

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

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

Table of ContentsAverage Balance Sheets, Yields and Rates
(Dollars in thousands)

	Six Months Ended June 30,			2011			
	2012 Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	
Interest earning assets:							
Loans (1) (2)	\$4,162,384	\$116,938	5.65	% \$4,286,512	\$124,762	5.87	%
Investment securities (2)	2,118,793	23,018	2.18	1,984,000	24,291	2.47	
Interest bearing deposits in banks	408,799	516	0.25	472,994	594	0.25	
Federal funds sold	2,139	7	0.66	3,061	9	0.59	
Total interest earnings assets	6,692,115	140,479	4.22	6,746,567	149,656	4.47	
Non-earning assets	626,295			619,837			
Total assets	\$7,318,410			\$7,366,404			
Interest bearing liabilities:							
Demand deposits	\$1,589,440	\$1,253	0.16	% \$1,256,414	\$1,681	0.27	%
Savings deposits	1,466,113	1,948	0.27	1,727,886	3,753	0.44	
Time deposits	1,518,693	8,840	1.17	1,827,269	13,340	1.47	
Repurchase agreements	503,428	308	0.12	519,392	408	0.16	
Other borrowed funds	34	—	—	5,577	—	—	
Long-term debt	37,189	993	5.37	37,490	984	5.29	
Subordinated debentures held by subsidiary trusts	122,356	2,974	4.89	123,715	2,903	4.73	
Total interest bearing liabilities	5,237,253	16,316	0.63	5,497,743	23,069	0.85	
Non-interest bearing deposits	1,254,983			1,080,379			
Other non-interest bearing liabilities	48,926			49,395			
Stockholders' equity	777,248			738,887			
Total liabilities and stockholders' equity	\$7,318,410			\$7,366,404			
Net FTE interest income		\$124,163			\$126,587		
Less FTE adjustments (2)		(2,355)			(2,262)		
Net interest income from consolidated statements of income		\$121,808			\$124,325		
Interest rate spread			3.59	%		3.62	%
Net FTE interest margin (3)			3.73	%		3.78	%
Cost of funds, including non-interest bearing demand deposits (4)			0.51	%		0.71	%

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

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

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

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

Table of Contents

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, 2012			Six Months Ended June 30, 2012		
	compared with			compared with		
	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	Volume	Rate	Net	Volume	Rate	Net
Interest earning assets:						
Loans (1)	\$(1,597)	\$(1,765)	\$(3,362)	\$(3,612)	\$(4,212)	\$(7,824)
Investment securities (1)	465	(1,584)	(1,119)	1,650	(2,923)	(1,273)
Interest bearing deposits in banks	53	(1)	52	(81)	3	(78)
Federal funds sold	—	—	—	(3)	1	(2)
Total change	(1,079)	(3,350)	(4,429)	(2,046)	(7,131)	(9,177)
Interest bearing liabilities:						
Demand deposits	223	(464)	(241)	446	(874)	(428)
Savings deposits	(234)	(585)	(819)	(569)	(1,236)	(1,805)
Time deposits	(1,005)	(1,059)	(2,064)	(2,252)	(2,248)	(4,500)
Repurchase agreements	9	(28)	(19)	(13)	(87)	(100)
Long-term debt	(4)	4	—	(8)	17	9
Subordinated debentures	(32)	44	12	(32)	103	71
Total change	(1,043)	(2,088)	(3,131)	(2,428)	(4,325)	(6,753)
Increase (decrease) in FTE net interest income	\$(36)	\$(1,262)	\$(1,298)	\$382	\$(2,806)	\$(2,424)

(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 \$3.4 million, or 22.1%, to \$12.0 million for the three months ended June 30, 2012, compared to \$15.4 million for the same period in 2011, and decreased \$7.2 million, or 23.5%, to \$23.3 million for the six months ended June 30, 2012, compared to \$30.4 million during the same period in 2011. Decreases in the provision for loan losses are reflective of improvement and stabilization of credit quality as evidenced by declining levels of non-performing and criticized loans. 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; income from the origination and sale of loans; service charges on deposit accounts; and, wealth management revenues. Non-interest income increased \$6.1 million, or 28.1%, to \$27.7 million for the three months ended June 30, 2012, as compared to \$21.6 million for the same period in 2011, and \$12.3 million, or 29.4%, to \$54.0 million during the six months ended June 30, 2012, as compared to \$41.8 million during the same period in 2011. Significant components of these increases 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 \$486 thousand, or 6.3%, to \$8.3 million during the three months ended June 30, 2012, as compared to \$7.8 million during the same period in 2011, and \$1.5 million, or 10.1%, to \$16.7 million during the

six months ended June 30, 2012, as compared to \$15.1 million during the same period in 2011. These increases were primarily due to higher credit card interchange fee revenue resulting from higher transaction volumes and increases in ATM service charges due to implementation of new fee schedules during third quarter 2011.

Income from the origination and sale of loans increased \$1.0 million, or 12.4%, to \$9.4 million during the three months ended June 30, 2012, as compared to \$8.4 million during the three months ended March 31, 2012. Income from the origination and sale of loans increased \$5.3 million, or 129.3%, to \$9.4 million during the three months ended June 30, 2012, compared to \$4.1 million during the same period in 2011, and \$10.3 million, or 135.7%, to \$17.8 million during the six months ended June 30, 2012, as compared to the same period in 2011. Record low mortgage interest rates continued to spur residential mortgage loan originations in our market areas during the first half of 2012, resulting in higher income from the origination and sale of loans.

Table of Contents

Other income decreased \$104 thousand, or 6.4%, to \$1.5 million for the three months ended June 30, 2012, compared to \$1.6 million for the same period in 2011. Other income increased \$83 thousand, or 2.3% to \$3.6 million during the six months ended June 30, 2012, as compared to \$3.5 million during the same period in 2011. Fluctuations in other income during the three and six months ended June 30, 2012, as compared to the same periods in 2011, were primarily due to decreases in earnings on securities held under deferred compensation plans, which were offset by a \$581 thousand gain on the sale of a bank building recorded during second quarter 2012.

Non-interest Expense. Non-interest expense increased \$3.1 million, or 5.7%, to \$57.3 million for the three months ended June 30, 2012, as compared to \$54.2 million for the same period in 2011, and increased \$7.6 million, or 7.1%, to \$114.7 million for the six months ended June 30, 2012, as compared to \$107.2 million for the same period in 2011. Significant components of these increases are discussed below.

Salaries and wages increased \$1.1 million, or 5.3%, to \$21.6 million during the three months ended June 30, 2012, as compared to \$20.6 million during the same period in the prior year, and \$2.4 million, or 6.0%, to \$43.2 million during the six months ended June 30, 2012, as compared to \$40.8 million during the same period in 2011 primarily due to increases in incentive compensation paid in the form of commissions and overtime to real estate lenders and processors, higher incentive bonus accruals reflective of our improved performance and inflationary wage increases.

Employee benefits expense decreased \$516 thousand, or 7.0%, to \$6.8 million during the three months ended June 30, 2012, as compared to \$7.3 million during same period in 2011, primarily due to decreases in the market value of securities held under deferred compensation plans and lower payroll tax and group health insurance expenses. Employee benefits expense increased \$951 thousand, or 6.4%, to \$15.8 million during the six months ended June 30, 2012, as compared to \$14.8 million during the same period in 2011. During the six months ended June 30, 2012, as compared to the same period in 2011, decreases in the market values of securities held under deferred compensation plans were more than offset by increases in stock-based compensation, higher profit sharing accrual reflective of improved performance and increases in group medical insurance costs.

FDIC insurance premiums decreased \$28 thousand, or 1.7%, to \$1.6 million during the three months ended June 30, 2012, as compared to \$1.6 million for the same period in 2011, and decreased \$899 thousand, or 22.0%, to \$3.2 million during the six months ended June 30, 2012, as compared to \$4.1 million during the same period in 2011. In February 2011, the FDIC issued a final rule that, among other things, modified the definition of an institution's deposit insurance assessment base and revised assessment rate schedules. These changes, which became effective April 1, 2011, resulted in a reduction in the our FDIC insurance premiums.

OREO expense, net of income, increased \$701 thousand, or 63.4%, to \$1.8 million for the three months ended June 30, 2012, compared to \$1.1 million for the three months ended March 31, 2012, due to additional carrying costs associated with properties foreclosed during the period. OREO expense, net of income, decreased \$236 thousand, or 11.6%, to \$1.8 million during the three months ended June 30, 2012, as compared to \$2.0 million for the same period in 2011, and decreased \$842 thousand, or 22.4%, to \$2.9 million during the six months ended June 30, 2012, as compared to \$3.8 million during the same period in 2011. Variations in net OREO expense between periods were primarily due to fluctuations in write-downs of the estimated fair value of OREO properties. Decreases in OREO expense during the three and six months ended June 30, 2012, as compared to the same periods in the prior year, were primarily due to declines in OREO write-downs. During the three and six months ended June 30, 2012, the Company wrote-down the estimated fair value of OREO properties by \$580 thousand and \$1.1 million, respectively, as compared to write-downs of \$2.0 million and \$3.5 million during the same respective periods in the prior year.

Professional fees increased \$276 thousand, or 38.0%, to \$1.0 million during the three months ended June 30, 2012, as compared to \$726 thousand during the same period in 2011, and \$430 thousand, or 28.6%, to \$1.9 million during the six months ended June 30, 2012, as compared to \$1.5 million during the same period in 2011. These increases in professional fees were primarily attributable to additional costs associated with strategic planning initiatives.

Mortgage servicing rights are evaluated quarterly for impairment. 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 second quarter 2012, we recorded impairment of \$52 thousand, as compared to impairment of \$27 thousand during second quarter 2011 and the reversal of impairment of \$868 thousand recorded during first quarter 2012. For the six months ended June 30, 2012, we reversed impairment of mortgage servicing rights of \$816 thousand, as compared to an impairment reversal of \$320 thousand during the same period in 2011.

Table of Contents

Other expenses primarily include advertising and public relations costs; office supply, postage, freight and telephone expenses; travel expense; donations expense; debit and credit card expenses; board of director fees; and other losses. Other expenses increased \$2.3 million, or 20.1%, to \$13.8 million for the three months ended June 30, 2012, as compared to \$11.5 million during the same period in 2011, and increased \$6.0 million, or 28.2%, to \$27.3 million during the six months ended June 30, 2012, as compared to \$21.3 million during the same period in 2011. During second quarter 2012, we recorded donation expense of \$1.5 million in conjunction with the sale of a bank building to a charitable organization. In addition, during second quarter 2012, we expensed unamortized issuance costs of \$428 thousand in conjunction with the June 26, 2012 redemption of junior subordinated debentures. Also contributing to the increase in other expenses during the six months ended June 30, 2012, as compared to the same period in the prior year, were \$3.0 million of estimated collection and settlement costs related to one borrower that were recorded as other expense during the first quarter of 2012. For additional information regarding the redemption of junior subordinated debentures, see "Financial Condition – Subordinated Debentures Held by Subsidiary Trusts" included herein and "Note 5 – Subordinated Debentures Held by Subsidiary Trusts" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report.

Income Tax Expense. Our effective federal income tax rate was 28.8% for the six months ended June 30, 2012 and 27.5% for the six months ended June 30, 2011. 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, 2012 and 2011. Changes in the effective federal income tax rates were primarily fluctuations in tax exempt interest income as a percentage of total income.

Financial Condition

Total assets decreased \$21 million, or less than 1.0%, to \$7,305 million as of June 30, 2012, from \$7,326 million as of December 31, 2011.

Loans. Total loans decreased \$17 million, or less than 1.0%, to \$4,170 million as of June 30, 2012, from \$4,187 million as of December 31, 2011. Increases in commercial, agricultural and indirect consumer loans as of June 30, 2012, compared to December 31, 2011, were more than offset by decreases primarily in commercial real estate and land acquisition and development loans. These decreases were attributable to the movement of lower quality loans out of the loan portfolio through charge-off or foreclosure combined with low loan demand.

Non-performing Assets. Non-performing assets include non-accrual loans, loans contractually past due 90 days or more and still accruing interest, loans renegotiated in troubled debt restructurings and OREO. The following table sets forth information regarding non-performing assets as of the dates indicated:

Nonperforming Assets

(Dollars in thousands)	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	
Non-performing loans:						
Non-accrual loans	\$ 129,923	180,910	199,983	223,961	229,662	
Accruing loans past due 90 days or more	6,451	5,017	4,111	3,001	2,194	
Troubled debt restructurings	35,959	36,838	37,376	35,616	31,611	
Total non-performing loans	172,333	222,765	241,470	262,578	263,467	
OREO	53,817	44,756	37,452	25,080	28,323	
Total non-performing assets	\$ 226,150	267,521	278,922	287,658	291,790	
	4.13	% 5.36	% 5.77	% 6.14	% 6.15	%

Non-performing loans to total loans						
Non-performing assets to total loans and OREO	5.35	% 6.36	% 6.60	% 6.69	% 6.77	%
Non-performing assets to total assets	3.10	% 3.60	% 3.81	% 3.94	% 4.05	%

Non-performing loans. Non-performing loans include non-accrual loans, loans contractually past due 90 days or more and still accruing interest and loans renegotiated in troubled debt restructurings. Impaired loans are a subset of non-performing loans and include all loans risk rated doubtful, loans placed on non-accrual status and loans renegotiated in troubled debt restructurings with the exception of consumer loans. We monitor and evaluate collateral values on impaired loans quarterly. Appraisals are required on all impaired loans every 18-24 months, or sooner as conditions necessitate. We monitor real estate values by market for our larger market areas. Based on trends in real estate values, adjustments may be made to the appraised value based on time elapsed between the appraisal date and the impairment analysis or a new appraisal may be ordered. Appraised

Table of Contents

values in our smaller market areas may be adjusted based on trends identified through discussions with local realtors and appraisers. Appraisals are also adjusted for selling costs. The adjusted appraised value is then compared to the loan balance and any resulting shortfall is recorded in the allowance for loan losses as a specific valuation allowance. Overall increases in specific valuation allowances will result in higher provisions for loan losses. Provisions for loan losses are also impacted by changes in the historical or general valuation elements of the allowance for loan losses as well.

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

Non-Performing Loans by Loan Type

(Dollars in thousands)	June 30, 2012	Percent of Total	December 31, 2011	Percent of Total	
Real estate:					
Commercial	\$80,489	46.8	% \$86,990	36.0	%
Construction:					
Land acquisition and development	38,651	22.5	% 63,195	26.2	%
Commercial	11,022	6.4	% 14,023	5.8	%
Residential	3,173	1.8	% 24,536	10.2	%
Total construction	52,846	30.7	% 101,754	42.2	%
Residential	13,166	7.6	% 20,075	8.3	%
Agricultural	5,234	3.0	% 7,470	3.1	%
Total real estate	151,735	88.1	% 216,289	89.6	%
Consumer	3,282	1.9	% 3,455	1.4	%
Commercial	16,448	9.5	% 20,857	8.6	%
Agricultural	868	0.5	% 869	0.4	%
Total non-performing loans	\$172,333	100.0	% \$241,470	100.0	%

Non-accrual loans. We generally place loans on non-accrual when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on non-accrual status, any interest previously accrued but not collected is reversed from income. If all loans on non-accrual had been current in accordance with their original terms, gross income of approximately \$584 thousand and \$769 thousand would have been accrued for the three months ended June 30, 2012 and 2011, respectively. If all loans on non-accrual had been current in accordance with their original terms, gross income of approximately \$1.3 million and \$1.5 million would have been accrued for the six months ended June 30, 2012 and 2011, respectively.

Non-accrual loans, the largest component of non-performing loans, decreased \$70 million, or 35.0%, to \$130 million at June 30, 2012, from \$200 million at December 31, 2011, primarily due to movement of non-accrual loans out of the loan portfolio due to charge-off or foreclosure. As of June 30, 2012, approximately 40% of our non-accrual loans were commercial real estate loans and approximately 27% were land acquisition and development loans.

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

We had loans renegotiated in troubled debt restructurings of \$91 million as of June 30, 2012, of which \$55 million were included in non-accrual loans in the non-performing assets table above and \$36 million were on accrual status and reported as troubled debt restructurings in the non-performing assets table above. As of June 30, 2012, approximately 85% of our loans restructured in troubled debt restructurings were performing in accordance with their modified terms.

Table of Contents

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

OREO increased \$16 million, or 43.7%, to \$54 million as of June 30, 2012 from \$37 million as of December 31, 2011. During the first half of 2012, we recorded additions to OREO of \$33 million, wrote down the fair value of OREO properties by \$1 million and sold OREO with a book value of \$16 million at a loss of \$6 thousand. As of June 30, 2012, the composition of our OREO was as follows: 42% land and land development properties, 32% commercial properties, 22% residential properties, 3% residential and commercial construction properties and 1% agricultural properties.

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

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

The allowance for loan losses consists of three elements:

- (1) Specific valuation allowances associated with impaired loans. Specific valuation allowances are determined based on assessment of the fair value of the collateral underlying the loans as determined through independent appraisals, the present value of future cash flows, observable market prices and any relevant qualitative or environmental factors impacting the loan. No specific valuation allowances are recorded for impaired loans that are adequately secured.
- (2) Historical valuation allowances based on loan loss experience for similar loans with similar characteristics and trends. Historical valuation allowances are determined by applying percentage loss factors to the credit exposures

from outstanding loans. For commercial, agricultural and real estate loans, loss factors are applied based on the internal risk classifications of these loans. For consumer loans, loss factors are applied on a portfolio basis. For commercial, agriculture and real estate loans, loss factor percentages are based on a migration analysis of our historical loss experience, designed to account for credit deterioration. For consumer loans, loss factor percentages are based on a one-year loss history.

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

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

Table of Contents

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

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

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, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Balance at beginning of period	\$ 115,902	112,581	120,303	124,579	124,446
Provision charged to operating expense	12,000	11,250	13,751	14,000	15,400
Charge offs:					
Real estate					
Commercial	6,362	681	2,972	4,064	5,005
Construction	15,107	2,571	9,178	7,997	7,404
Residential	861	1,825	3,803	149	748
Agricultural	20	79	213	—	—
Consumer	1,210	1,312	1,402	1,682	1,499
Commercial	3,180	2,512	4,785	6,498	1,407
Agricultural	5	107	82	15	39
Total charge-offs	26,745	9,087	22,435	20,405	16,102
Recoveries:					
Real estate					
Commercial	483	213	116	41	11
Construction	13	173	227	1,272	50
Residential	30	120	52	73	48
Agricultural	—	—	—	—	—
Consumer	488	521	384	453	470
Commercial	609	126	183	287	253
Agricultural	14	5	—	3	3
Total recoveries	1,637	1,158	962	2,129	835
Net charge-offs	25,108	7,929	21,473	18,276	15,267
Balance at end of period	\$ 102,794	115,902	112,581	120,303	124,579

Edgar Filing: GIGAMEDIA LTD - Form 6-K

Period end loans	\$4,169,963	4,158,616	4,186,549	4,275,717	4,281,260	
Average loans	4,159,565	4,165,203	4,236,228	4,291,632	4,269,637	
Net loans charged-off to average loans, annualized	2.42	% 0.76	% 2.01	% 1.69	% 1.43	%
Allowance to period end loans	2.47	% 2.79	% 2.69	% 2.81	% 2.91	%

46

Table of Contents

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 decreased \$89 million, or 4.1%, to \$2,081 million, or 28.5% of total assets, as of June 30, 2012, from \$2,170 million, or 29.6% of total assets, as of December 31, 2011.

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, 2012, we had investment securities with fair values of \$881 thousand that had been in a continuous loss position more than twelve months. Gross unrealized losses on these securities totaled \$19 thousand as of June 30, 2012, and were attributable to changes in interest rates. No impairment losses were recorded during the three and six months ended June 30, 2012 and 2011.

Deferred Tax Asset. Our net deferred tax asset decreased \$4.6 million, or 47.9%, to \$5.0 million as of June 30, 2012, as compared to \$9.6 million as of December 31, 2011, primarily due to loan charge-offs, which are currently deductible for income tax purposes.

Deposits. Our deposits consist of non-interest bearing and interest bearing demand, savings, individual retirement and time deposit accounts. Total deposits increased \$74 million, or 1.3%, to \$5,901 million as of June 30, 2012, from \$5,827 million as of December 31, 2011, 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, 2012	Percent of Total	December 31, 2011	Percent of Total	
Non-interest bearing demand	\$1,337,777	22.7	% \$1,271,709	21.8	%
Interest bearing:					
Demand	1,586,962	26.9	1,306,509	22.4	
Savings	1,495,230	25.3	1,691,413	29.0	
Time, \$100 and over	641,070	10.9	681,047	11.7	
Time, other (1)	840,340	14.2	876,293	15.1	
Total interest bearing	4,563,602	77.3	4,555,262	78.2	
Total deposits	\$5,901,379	100.0	% \$5,826,971	100.0	%

(1) Included in Time, other are Certificate of Deposit Account Registry Service, or CDAR, deposits of \$84 million as of June 30, 2012 and \$98 million as of December 31, 2011.

Interest bearing demand deposits increased \$280 million, or 21.5%, to \$1,587 million as of June 30, 2012 from \$1,307 million as of December 31, 2011, and savings deposits decreased \$196 million, or 11.6%, to \$1,495 million as of June 30, 2012 from \$1,691 million as of December 31, 2012. As a result of a regulatory change allowing businesses to receive interest on checking accounts, during first quarter 2012 we discontinued our savings sweep product, which

resulted in a shift of approximately \$300 million from savings deposits into demand deposits.

Repurchase Agreements. In addition to deposits, repurchase agreement with commercial depositors, which include municipalities, provide an additional source of funds. Under repurchase agreements, deposits balances are invested in short-term U.S. government agency securities overnight and are then repurchased the following day. All outstanding repurchase agreements are due in one day. Repurchase agreements decreased \$60 million, or 11.7%, to \$456 million as of June 30, 2012, from \$516 million as of December 31, 2011 due to fluctuations in the liquidity of our customers.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses decreased \$9 million, or 20.5%, to \$34 million as of June 30, 2012, from \$42 million as of December 31, 2011. This decrease is primarily due to fluctuations in the timing of corporate income tax payments.

Table of Contents

Subordinated Debentures Held by Subsidiary Trusts. Subordinated debentures held by subsidiary trusts decreased \$41 million, or 33.3%, to \$82 million as of June 30, 2012, from \$124 million as of December 31, 2011. On June 26, 2012, we redeemed \$41 million of junior subordinated deferrable interest debentures, or subordinated debentures, maturing March 26, 2033 and bearing a cumulative floating interest rate equal to LIBOR plus 3.15% per annum. Redemption of the subordinated debentures caused a mandatory redemption of \$40 million of floating rate mandatorily redeemable capital trust preferred securities, or trust preferred securities, and all common securities issued by First Interstate Statutory Trust I, a wholly-owned unconsolidated business trust sponsored by us. See “Note 5 – Subordinated Debentures Held by Subsidiary Trusts” in the accompanying “Notes to Unaudited Consolidated Financial Statements” included in this report for additional information regarding this redemption

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 \$15 million, or 2.0% to \$786 million as of June 30, 2012, from \$771 million as of December 31, 2011, primarily due to the retention of earnings.

On June 19, 2012, we declared a quarterly dividend to common stockholders of \$0.12 per share paid on July 16, 2012 to shareholders of record as of July 2, 2012. During the first six months of 2012, we paid aggregate cash dividends of \$10.3 million, or \$0.2325 per share, to common stockholders, as compared to aggregate cash dividends of \$9.6 million, or \$0.2250 per share, to common shareholders during the same period in 2011. In addition, we paid dividends of \$1.7 million to preferred stockholders during the first six months of 2012 and 2011.

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, 2012 and December 31, 2011, the Bank had capital levels that, in all cases, exceeded the well-capitalized guidelines. As of June 30, 2012, we had consolidated leverage, tier 1 and total risk-based capital ratios of 9.54%, 14.22% and 16.20%, respectively, as compared to 9.84%, 14.55% and 16.54%, respectively, as of December 31, 2011. Decreases in our leverage, tier 1 and total risk based capital ratios as of June 30, 2012, compared to December 31, 2011, were due to the redemption of \$40 million of trust preferred securities that qualified as tier 1 capital under regulatory capital guidelines. For additional information regarding the redemption, see “Subordinated Debentures Held by Subsidiary Trusts” included herein and “Note 5 – Subordinated Debentures Held by Subsidiary Trusts” in the accompanying “Notes to Unaudited Consolidated Financial Statements” included in this report.

Liquidity. Liquidity measures our ability to meet current and future cash flow needs on a timely basis and at a reasonable cost. We manage our liquidity position to meet the daily cash flow needs of 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.

Table of Contents

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 15 – Recent Authoritative Accounting Guidance” in the accompanying “Notes to Unaudited Consolidated Financial Statements” included in this report for details of recently issued accounting pronouncements and their expected impact on our financial statements.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2012, 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, 2011.

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, 2012, 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, 2012, 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, 2012, that have materially affected, or are reasonably likely to materially affect, such control.

Limitations on Controls and Procedures

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or

procedures may deteriorate over time. Because of these limitations, any system of disclosure controls and procedures or internal control over financial reporting may not be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

Table of Contents

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, 2011.

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, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) There were no unregistered sales of equity securities during the three months ended June 30, 2012.

(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, 2012.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 2012	—	\$—	—	Not Applicable
May 2012	—	—	—	Not Applicable
June 2012	77	14.13	—	Not Applicable
Total	77	\$ 14.13	—	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. Mine Safety Disclosures

Not applicable.

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)

50

Table of Contents

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	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.

51

Table of Contents

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 9, 2012

/S/ ED GARDING
Ed Garding
President and Chief Executive Officer

Date: August 9, 2012

/S/ TERRILL R. MOORE
Terrill R. Moore
Executive Vice President and
Chief Financial Officer